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Author and Title
 National Convention of Insurance
 Commissioners.
 Proceedings.

Call Number	HG 8016 N25 1916	Vol.	Copy
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Name	Location

National Convention of Insurance
 Commissioners.
 Proceedings.

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PROCEEDINGS

OF THE

FORTY-SEVENTH SESSION

NATIONAL CONVENTION OF

INSURANCE COMMISSIONERS

RICHMOND, VIRGINIA

SEPTEMBER 26-29, 1916.

AND OF

ADJOURNED MEETINGS IN

NEW YORK, DECEMBER 7, 1915.

AND IN

ST. LOUIS, MISSOURI, APRIL 17, 1916.

COLUMBIA, S. C.
THE STATE COMPANY
1916

No. 14021
Rent due. 11, 1916.

AUG 20 1971

CONSTITUTION.

As Adopted 1894, With Amendments.

Article 1. This Association shall be known as the National Convention of Insurance Commissioners.

Art. 2. Its membership shall consist of the Commissioner, Superintendent, or other official who by law is given charge of insurance matters in each State and Territory: *Provided, however,* That such official may delegate as his representative any person officially connected with his department, who is wholly or principally employed by said department, and who is a legal resident of the State wherein the department is located. [As amended by Thirty-second Convention in 1901.]

Art. 3. No person having any connection with an insurance company, except as a policyholder, shall be a member of this Association. [As amended by Thirty-second Convention in 1901.]

Art. 4. The officers of the Convention shall be a President, two Vice-Presidents, and Secretary, and an Executive Committee, consisting of seven members and the above named officers, all of whom shall be elected by ballot at the annual meeting. But no person shall be eligible for the office of President whose term of office shall definitely expire before the assembling of the Annual Convention subsequent to his election. [As amended by Thirty-third Convention in 1902, Forty-first Convention in 1910, and Forty-third Convention in 1912.]

Art. 5. The duties of the several officers shall be such as usually devolve upon those holding like positions. The Executive Committee shall make arrangements for the annual meeting, and in case of a vacancy in any of the offices, fill the same until the next annual meeting.

Art. 6. The annual meeting shall be held at such time and place as may be designated by the Executive Committee. [As amended Chicago, April, 1912.]

Art. 7. As soon as convenient after the annual session, the President shall appoint the members of such committees, as may have been authorized by vote of the Convention, and the Secretary shall immediately notify each member of his appointment. The Standing Committee on Blanks so appointed shall hold its regular annual and other meetings at such times as to enable the committee to submit its annual report for the consideration of the Executive Committee at its meeting next preceding the Convention. Any action on the part of the Executive Committee relative to the report of the Committee on Blanks shall be binding upon the Convention. After such action it shall be the duty of the Committee on Blanks to prepare

blanks in accord with the report as accepted by the Executive Committee and have them sent to all members of the Convention. [As amended by the Forty-second Convention, 1911.]

Art. 8. The Convention shall be governed by the ordinary rules of parliamentary practice. • One or more of the sessions of each Convention shall be executive, and shall be so announced in the program. [As amended by the Forty-first Convention, 1910.]

Art. 9. Commissioners or Superintendents, or other officials in charge of insurance matters, who have been members of the Convention, may, upon retiring from office, be chosen honorary members, without the right to vote, by a two-thirds vote at any session. Any supervising insurance official may, at any session, be elected an honorary member, by a similar vote, and all retiring Presidents of the Convention shall be honorary members thereof. [As amended by the Convention of 1895.]

Art. 10. Communications to the Convention, verbal or written, shall be heard by or referred to the appropriate committee, which shall thereafter report to the Convention.

Art. 11. This Constitution may be amended, and any article therein may be suspended at any time by an unanimous vote at any regular meeting or by a two-thirds vote of the members present and voting, notice thereof having been given at a previous session.

Art. 12. All previous Constitutions are hereby repealed.

OFFICERS and COMMITTEES for 1916-17.

President.

BURTON MANSFIELD,
Insurance Commissioner, Connecticut.

First Vice-President.

JOHN T. WINSHIP,
Commissioner of Insurance, Michigan.

Second Vice-President.

W. C. TAYLOR,
Commissioner of Insurance, North Dakota.

Secretary-Treasurer.

F. H. McMASTER,
Insurance Commissioner, South Carolina.

Executive Committee.

JOSEPH BUTTON, Chairman.....	Virginia
JESSE S. PHILLIPS.....	New York
EMORY H. ENGLISH.....	Iowa
F. H. HARDISON.....	Massachusetts
JAMES R. YOUNG.....	North Carolina
ROBT. J. MERRILL.....	New Hampshire
J. E. PHELPS.....	California

STANDING COMMITTEES.

Actuarial Bureau.

JAMES R. YOUNG, Chairman.....	North Carolina
JESSE S. PHILLIPS.....	New York
RUFUS M. POTTS.....	Illinois
J. DENNY O'NEIL.....	Pennsylvania
F. H. McMASTER.....	South Carolina

Assets of Insurance Companies.

ROBERT J. MERRILL, Chairman.....	New Hampshire
C. F. NESBIT.....	District of Columbia
WILLIAM KEATING.....	Montana
FRANK TAGGART.....	Ohio
JOHN JAMES.....	Utah
GEORGE A. COLE.....	Nevada
T. M. HENRY.....	Mississippi
JACOBO CHAVEZ.....	New Mexico
GUY W. BAILEY.....	Vermont
F. H. HARDISON.....	Massachusetts
JESSE S. PHILLIPS.....	New York

Blanks.

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S. E. STILLWELL.....	Ohio
R. E. ANKERS.....	Virginia
I. E. LANG.....	Maine
FELIX HERBERT.....	Rhode Island
WALTER E. OTTO.....	Michigan
S. W. McCULLOCH.....	Pennsylvania
J. R. FULMER.....	South Carolina
JAMES FAIRLIE.....	Illinois
WILLIAM J. CAMERON.....	North Carolina
J. W. ALLEN.....	Tennessee
H. L. PEABODY.....	Massachusetts
L. A. ANDERSON.....	Wisconsin

Codification of Rulings.

A. L. WELCH, Chairman.....	Oklahoma
W. B. EASTMAN.....	Nebraska
W. F. MILLSAPS.....	Louisiana

GEORGE F. STEELE.....	Idaho
H. O. FISHBACK.....	Washington
ROBERT B. FORSYTH.....	Wyoming
E. R. HARPER.....	Colorado
J. C. LUNING.....	Florida
F. H. McMASTER.....	South Carolina
C. B. SMITH.....	Alabama
E. J. CARTER.....	Maine

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W. R. McCABE.....	Delaware
L. L. COFFMAN.....	Arkansas
M. HARRY O'BRIEN.....	South Dakota
C. J. McCARTHY.....	Hawaii
ROBERT J. MERRILL.....	New Hampshire
W. A. WRIGHT.....	Georgia
GEORGE A. COLE.....	Nevada

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RUFUS M. POTTS.....	Illinois
T. M. HENRY.....	Mississippi
W. C. TAYLOR.....	North Dakota
W. B. EASTHAM.....	Nebraska
FRANK TAGGART.....	Ohio
WALTER K. CHORN.....	Missouri
ROBERT B. FORSYTH.....	Wyoming

Fidelity and Surety Companies.

WM. M. SHEHAN, Chairman.....	Maryland
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JOSEPH BUTTON.....	Virginia
JOHN S. DARST.....	West Virginia
J. DENNY O'NEIL.....	Pennsylvania
CHAS. C. GRAY.....	Rhode Island
C. B. SMITH.....	Alabama
WALTER K. CHORN.....	Missouri
J. E. PHELPS.....	California
WILLIAM KEATING.....	Montana
WM. F. DUNBAR.....	Tennessee

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J. J. BAILEY.....	Louisiana
H. O. FISHBACK.....	Washington
C. F. NESBIT.....	District of Columbia
J. T. WINSHIP.....	Michigan
E. R. HARPER.....	Colorado
JAMES R. YOUNG.....	North Carolina
MICHAEL J. CLEARY.....	Wisconsin
HARVEY WELLS.....	Oregon

Laws and Legislation.

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ROBERT J. MERRILL.....	New Hampshire
JOSEPH BUTTON.....	Virginia
J. T. WINSHIP.....	Michigan
J. DENNY O'NEIL.....	Pennsylvania
MICHAEL J. CLEARY.....	Wisconsin
F. H. McMASTER.....	South Carolina
C. F. NESBIT.....	District of Columbia
E. H. ENGLISH.....	Iowa
JAMES R. YOUNG.....	North Carolina
SAMUEL D. WORKS.....	Minnesota
WILLIAM F. DUNBAR.....	Tennessee
WALTER K. CHORN.....	Missouri

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JOHN C. LUNING.....	Florida
HARVEY WELLS.....	Oregon
ROBERT B. FORSYTH.....	Wyoming
CAREY J. WILSON.....	Kansas
WILLIAM KEATING.....	Montana
C. C. THOMPSON.....	Arizona
GEORGE F. STEELE.....	Idaho

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M. HARRY O'BRIEN.....	South Dakota
E. J. CARTER.....	Maine
JOHN S. PATTERSON.....	Texas
W. C. TAYLOR.....	North Dakota
A. L. WELCH.....	Oklahoma

E. R. HARPER.....	Colorado
W. F. MILLSAPS.....	Louisiana
C. F. THOMAS.....	Kentucky

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J. E. PHELPS.....	California
E. H. ENGLISH.....	Iowa
GEO. M. LAMONTE.....	New Jersey
C. F. THOMAS.....	Kentucky
JOHN JAMES.....	Utah
SAMUEL D. WORKS.....	Minnesota

Rates of Mortality and Interest.

R. M. POTTS, Chairman.....	Illinois
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C. B. SMITH.....	Alabama
H. O. FISHBACK.....	Washington
W. F. MILLSAPS.....	Louisiana
CHAS. C. GRAY.....	Rhode Island
D. J. CRITTENBERGER.....	Indiana
M. HARRY O'BRIEN.....	South Dakota

Reserves Other Than Life.

F. H. HARDISON, Chairman.....	Massachusetts
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WM. M. SHEHAN.....	Maryland
GUY W. BAILEY.....	Vermont
JOSEPH BUTTON.....	Virginia
JOHN T. WINSHIP.....	Michigan
WALTER K. CHORN.....	Missouri
E. R. HARPER.....	Colorado
J. E. PHELPS.....	California
SAMUEL D. WORKS.....	Minnesota
M. J. CLEARY.....	Wisconsin

Social Insurance.

RUFUS M. POTTS, Chairman.....	Illinois
JESSE S. PHILLIPS.....	New York
JAMES R. YOUNG.....	North Carolina
EMORY H. ENGLISH.....	Iowa
C. F. NESBIT.....	District of Columbia

COMMITTEES.

Taxation.

C. F. NESBIT, Chairman.....	District of Columbia
HARVEY WELLS.....	Oregon
C. C. THOMPSON.....	Arizona
E. J. CARTER.....	Maine
C. F. THOMAS.....	Kentucky
CAREY J. WILSON.....	Kansas
GEORGE M. LAMONTE.....	New Jersey
RUFUS M. POTTS.....	Illinois
SAMUEL D. WORKS.....	Minnesota

Unauthorized Insurance.

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JOHN S. PATTERSON.....	Texas
GUY W. BAILEY.....	Vermont
C. B. SMITH.....	Alabama
A. L. WELCH.....	Oklahoma
E. J. CARTER.....	Maine
C. F. THOMAS.....	Kentucky
WM. F. DUNBAR.....	Tennessee
HARVEY WELLS.....	Oregon

Unfinished Business.

S. D. WORKS, Chairman.....	Minnesota
W. K. CHORN.....	Missouri
THE SECRETARY OF THE CONVENTION	

Valuation of Securities.

JESSE S. PHILLIPS, Chairman.....	New York
F. H. HARDISON.....	Massachusetts
CHAS. C. GRAY.....	Rhode Island
J. DENNY O'NEIL.....	Pennsylvania
RUFUS M. POTTS.....	Illinois
WILLIAM KEATING.....	Montana
FRANK TAGGART.....	Ohio
WM. M. SHEHAN.....	Maryland
JAMES R. YOUNG.....	North Carolina
JOHN S. DARST.....	West Virginia
E. H. ENGLISH.....	Iowa
T. M. HENRY.....	Mississippi

Workmen's Compensation Insurance

F. H. HARDISON, Chairman.....	Massachusetts
J. S. PHILLIPS.....	New York
M. J. CLEARY.....	Wisconsin

SPECIAL COMMITTEES.

Clearing Committee for Rulings on Standard Provisions in Life Policies.

John T. Winship, Chairman, Michigan; John S. Patterson, Texas;
George F. Steele, Idaho; John James, Utah.

Clearing Committee for Rulings on Health and Accident Policies.

Guy W. Bailey, Chairman, Vermont; F. H. Hardison, Massachusetts;
Jesse S. Phillips, New York; J. Denny O'Neil, Pennsylvania.

Excess Interest Valuations for Fraternal.

Jesse S. Phillips, Chairman, New York; F. H. Hardison, Massachusetts;
C. F. Nesbit, District of Columbia.

Fire Insurance Rates, Expenses, Etc.

Frank Taggart, Chairman, Ohio; Walter K. Chorn, Missouri; Samuel
D. Works, Minnesota; Wm. M. Shehan, Maryland; Jesse S.
Phillips, New York; J. Denny O'Neil, Pennsylvania; George F.
Steele, Idaho; Rufus M. Potts, Illinois; Michael J. Cleary, Wis-
consin; William F. Dunbar, Tennessee.

Licensing Adjusters

James R. Young, Chairman, North Carolina; John T. Winship, Mich-
igan; Jesse S. Phillips, New York.

Mercantile Floater Policies.

Robert J. Merrill, Chairman, New Hampshire; J. Denny O'Neil,
Pennsylvania; Emory H. English, Iowa.

Mutual Assessment Life Insurance.

Emory H. English, Iowa; Frank Taggart, Ohio; F. H. McMaster,
South Carolina.

On Reserves for Pensions for Employees of Insurance Companies.

H. P. Hammond, Chairman, Connecticut; H. E. Ryan, New York;
H. L. Phillips, Minnesota.

On Trust Deeds of Foreign Insurance Companies.

F. H. Hardison, Chairman, Massachusetts; Jesse S. Phillips, New
York; Frank Taggart, Ohio.

On Standard Policy Form of Industrial Sick Benefit Companies and to Eliminate Over Insurance in Such Companies.

C. F. Nesbit, District of Columbia; Joseph Button, Virginia; John T.
Winship, Michigan; J. Denny O'Neil, Pennsylvania; James R.
Young, North Carolina; F. H. McMaster, South Carolina.

On New Mortality Table.

H. E. Ryan, New York; H. P. Hammond, Connecticut; R. E. Ankers, Virginia; W. E. Otto, Michigan; Geo. W. Smith, Massachusetts.

Reciprocal Underwriters.

Walter K. Chorn, Chairman, Missouri; William F. Dunbar, Tennessee; Michael J. Cleary, Wisconsin.

Real Estate Investment of Insurance Companies and Bank Certificates of Deposits Held.

Robert J. Merrill, Chairman, New Hampshire; Guy W. Bailey, Vermont; F. H. Hardison, Massachusetts.

To Draft Uniform Fire Insurance Policy.

M. J. Cleary, Chairman, Wisconsin; J. Denny O'Neil, Pennsylvania; James R. Young, North Carolina; Jesse S. Phillips, New York; Carey J. Wilson, Kansas.

To Determine Which Are Special Deposit States.

Frank Taggart, Chairman, Ohio; Jesse S. Phillips, New York; F. H. Hardison, Massachusetts.

To Investigate Persons, Firms or Corporations Contracting to Furnish Citizens Information in Regard to Insurance.

William F. Dunbar, Tennessee; James R. Young, North Carolina; Walter K. Chorn, Missouri.

Unauthorized Insurance.

Samuel D. Works, Chairman, Minnesota; Frank Taggart, Ohio; C. F. Nesbit, District of Columbia; Joseph Button, Virginia; Jesse S. Phillips, New York.

Uniform Law for Fidelity and Surety Companies.

Wm. M. Shehan, Chairman, Maryland; Joseph Button, Virginia; John T. Winship, Michigan; F. H. Hardison, Massachusetts; Jesse S. Phillips, New York.

Uniform Policy Forms for Live Stock Insurance

M. J. Cleary, Wisconsin; J. T. Winship, Michigan; W. K. Chorn, Missouri.

Union Central Life Insurance Company.

Burton Mansfield, Connecticut; James R. Young, North Carolina; F. H. Hardison, Massachusetts; Joseph Button, Virginia; Jesse S. Phillips, New York.

Whole Family Protection by Fraternals.

John T. Winship, Michigan; Robert J. Merrill, New Hampshire; James R. Young, North Carolina.

Adjourned Meeting of National Convention of Insurance Commissioners.

College Room, Hotel Astor, New York City,
December 7, 1915.

At ten o'clock a. m. the National Convention of Insurance Commissioners was called to order by President Burton Mansfield.

A call of the roll of States showed the following representatives to be present:

Alabama—C. B. Smith, Commissioner.

California—J. E. Phelps, Commissioner.

Colorado—E. R. Harper, Commissioner.

Connecticut—Burton Mansfield, Commissioner; H. P. Hammond, Actuary.

District of Columbia—C. F. Nesbit, Commissioner.

Illinois—R. M. Potts, Superintendent; James Fairlie, Actuary.

Indiana—Harry L. Arnold, Actuary.

Iowa—E. H. English, Commissioner.

Kentucky—C. B. Bullock, Actuary.

Maryland—Wm. M. Shehan, Commissioner; W. L. Coudon, Deputy.

Massachusetts—F. H. Hardison, Commissioner.

Michigan—John T. Winship, Commissioner.

Minnesota—S. D. Works, Commissioner.

Mississippi—T. M. Henry, Commissioner; W. R. Halliday, Actuary.

Missouri—W. K. Chorn, Commissioner.

New Hampshire—R. J. Merrill, Commissioner.

New Jersey—George M. LaMonte, Commissioner.

New York—Jesse S. Phillips, Superintendent; H. D. Appleton, 1st Deputy; G. R. Stoddard, Jr., 2nd Deputy; Leroy A. Lincoln, Counsel; H. E. Ryan, Associate Actuary; Arthur Saxon, Chief Examiner Casualty Companies.

North Carolina—J. R. Young, Commissioner.

Ohio—Frank Taggart, Commissioner.

Oklahoma—A. L. Welch, Commissioner.

Pennsylvania—S. W. McCulloch, Deputy.

Rhode Island—C. C. Gray, Commissioner; S. E. Allison, Actuary.

South Carolina—F. H. McMaster, Commissioner.

Tennessee—W. F. Dunbar, Commissioner.

*Texas—J. S. Patterson, Commissioner.

Vermont—Guy W. Bailey and W. F. Scott, Commissioners.

Virginia—Joseph Button, Commissioner.

West Virginia—J. S. Darst, Commissioner.

Wisconsin—M. J. Cleary, Commissioner.

*Arrived second day.

The roll of committees was called and the chairman or ranking member of such committees as were to meet announced the hour and place of meeting.

Chairman Cleary of the Committee on Fidelity and Surety Companies presented the following report:

Report on Fidelity and Surety Companies.

National Convention of Insurance Commissioners:

Your Committee on Fidelity and Surety Companies, in accordance with the resolution adopted by the National Convention of Insurance Commissioners at Monterey, California, looking to an investigation as to the necessity of the adoption of a uniform law relative to Fidelity and Surety business, beg leave to submit the following report:

A meeting of the Committee was held at the Hotel Astor, Monday, December 6, 1915, at which meeting Hon. Wm. H. Hotchkiss explained a brief that he had preparing covering the surety laws of the various States. At this meeting representatives of Surety Companies discussed the question, and the Committee adopted a resolution providing that the Chairman of the Committee appoint a Sub-Committee consisting of himself and two other members, and that the Chairman of the Committee on Reserves Other Than Life of this Convention be added to the Committee, for the purpose of considering with representatives of Surety Companies the formation or framing of a uniform law covering this class of business, to report to the entire Committee at such time as will give opportunity for thorough consideration of the subject, as will lead to the adoption of a uniform law for reporting to the spring Convention of this body to be held in Chicago.

Commissioner Winship moved to amend the report by requesting the chairman of the Committee on Reserves Other Than Life to add one member of his committee to the sub-committee to be named by the chairman of the Committee on Fidelity and Surety Companies.

The motion was carried and the report as amended was adopted.

Superintendent Jesse S. Phillips, Chairman of the Committee on Valuations, presented the following report:

Preliminary Report of Committee on Valuation of Securities.

The Committee on Valuation of Securities submits the following preliminary report for the year 1915-'16:

The contributions received from the various States for the necessary expenses incident to the preparation of the annual valuation pamphlet amount to \$3,100, as per attached detailed statement. A payment of \$1,000 will be made to Marvyn Scudder by Massachusetts, resulting in total contributions of \$4,100. The total contributions from all State departments other than New York for the past year amounted to \$5,065.

The expenses this year for printing the valuation pamphlet will be somewhat in excess of those for last year (\$2,033.48), owing to new acquisitions of companies which will tend to make the volume larger. It is probable that the cost of the book for this year will be in the neighborhood of \$2,300.

In making this preliminary statement of contributions now on hand, the Committee wishes to impress upon the members of the Convention the necessity for annual contributions to carry on this work—most important in its character—and it urges those States which have heretofore contributed, but which at the present time have not forwarded to the Chairman of the Committee their usual contributions, to make like contributions for the 1916 volume. The values carried will be on the basis of December 31, 1915, the present financial situation being such that the necessity for the departure made in the valuation pamphlet issued in January of this year carrying therein June 30 valuations no longer exists.

The committee has again entered into a contract for the services of Marvyn Scudder, 55 Wall Street, New York City, agreeing to pay him for his services, and those of his office, five thousand dollars (\$5,000). The general procedure in arriving at the valuations, described in previous reports of the Committee, is continued. Attached to this report is a copy of a communication dated October 13, 1915, signed by Marvyn Scudder, which has been accepted by the committee.

The committee expects to issue the valuation pamphlet before the 20th of January. The 1915 pamphlet was issued on January 14, it being possible, incident to the fact that June 30 valuations were carried, to secure data at an earlier rate than the previous year. In 1914 the pamphlet was issued on January 17. The 1916 pamphlet will be considerably larger than the one of two years ago, therefore it is possible, owing to that fact, and also because it will carry values as of December 31, that the date of issuance may have to be delayed until January 20.

As soon as the pamphlet is in print it will be distributed as heretofore: all companies operating in New York State will have a copy of the pamphlet forwarded directly from Albany; all Commissioners of other States having companies not operating in New York, sending in memoranda to Albany specifying the number of copies of the pamphlet they will desire for their own use, will be furnished with same, or, if they will send a list of such companies, the pamphlet will be mailed directly to the companies from Albany.

The first copies of the pamphlet received will be sent directly to the various departments.

Respectfully submitted,

JESSE S. PHILLIPS, Chairman;
FRANK H. HARDISON,
CHARLES JOHNSON,
RUFUS M. POTTS,
FRANK TAGGART,
J. S. DARST,
T. M. HENRY,
JAMES R. YOUNG,
EMORY H. ENGLISH,
WM. MASON SHEHAN.

**Contributions Received by Jesse S. Phillips, Chairman, Committee
on Valuation of the National Convention of Insurance
Commissioners.**

July 15	Carey J. Wilson, Ins. Com., Kansas.....	\$50 00
	(Reported to Convention at Monterey.)	
Oct. 11	William Keating, State Auditor, Montana.....	150 00
Oct. 20	Burton Mansfield, Ins. Com., Connecticut.....	500 00
Oct. 29	F. H. McMaster, Ins. Com., South Carolina.....	100 00
Nov. 1	John T. Winship, Ins. Com., Michigan.....	150 00
Nov. 4	Walter F. Scott, Ins. Com., Vermont.....	150 00
Nov. 4	Wm. F. Dunbar, Ins. Com., Tennessee.....	100 00
Nov. 5	M. J. Cleary, Ins. Com., Wisconsin.....	300 00
Nov. 5	Chas. C. Gray, Ins. Com., Rhode Island.....	200 00
Nov. 5	Frank Taggart, Supt. Ins., Ohio.....	200 00
Nov. 8	Rufus M. Potts, Ins. Com., Illinois.....	350 00
Nov. 10	J. R. Young, Ins. Com., North Carolina.....	100 00
Nov. 11	Joseph Button, Ins. Com., Virginia.....	250 00
Nov. 22	H. O. Fishback, Ins. Com., Washington.....	50 00
Nov. 27	M. C. Clay, Ins. Com., Kentucky.....	100 00
Nov. 29	J. W. Blunt, Ins. Com., Maine.....	100 00
Dec. 1	Geo. M. LaMonte, Com. Bkg. and Ins., N. Jersey	50 00
Dec. 7	E. H. English, Com. of Ins., Iowa.....	100 00
Dec. 7	E. R. Harper, Com. of Ins., Colorado.....	100 00
		\$3,100 00

Copy.

THE INVESTORS' AGENCY, INC.
55 Wall Street, New York.

M. L. Scudder, President.
Marvin Scudder, Vice-President.
Philip J. Scudder, Treasurer.
L. A. Griffin, Manager.

October 13, 1915.

Hon. Jesse S. Phillips, Chairman,
Committee on Valuation of Securities,
National Convention of Insurance Commissioners.

Dear Sir: After a talk with your Auditor, Mr. Hughes, this morning with reference to the valuation of securities held by insurance companies as of December 31, 1915, I wish to make the following proposition which is in all respects similar to the arrangement for valuations last year:

Following the precedent of last year, my office will undertake this work for the total sum of five thousand (\$5,000.00) dollars, three thousand (\$3,000.00) dollars to be paid February 1st, 1916, and the balance June 30th, 1916.

I understand that the procedure will be substantially as follows:

1. The names of all securities to be valued, with sufficient information to identify the same, are to be furnished to me on the form of valuation card now in use by the Insurance Department of the State of New York at my office in New York City on or before December 1st, 1915, it being understood that the bulk of this information is to be furnished to me on request from time to time after October 15th, 1915.

2. Letters of inquiry for the purpose of obtaining information from various sources as to the values of the various securities are to be sent out over the signature of the Superintendent of Insur-

ance of New York State on printed forms provided by him for that purpose, or in such other manner as the "Committee" may elect, it being understood that the replies to such inquiries are to be received at the New York City office of the New York Insurance Department and turned to me for use in making these valuations. The typewriting on the forms provided will be done in my office. On the completion of the entire work, it is understood that this correspondence is to be returned to the New York Insurance Department for permanent filing, my office to retain a copy of all such correspondence, if it so desires.

3. Using the data obtained as above, together with all other sources of information which are made available by my library and other facilities, the valuation of such security is to be placed upon the cards as heretofore by an expert member of my staff, and at the same time there is to be entered in the space provided on the card for that purpose, a reference showing fully and exactly the source and authority for the valuation.

4. It is understood that these cards will then be turned over to certain representatives of the New York State Insurance Department, assigned to duty at my office, who will verify the valuations by turning up the reference or authority entered upon the card, or in any other way which seems to them desirable, their decision as to any valuation to be final as between my office and the Department.

5. After this checking is completed, the valuations are to be transcribed from the cards to the lists in a manner substantially as heretofore followed.

6. It is agreed that if, in making the valuation of any bond, its market value shall appear to be such as to yield the holder in excess of 6% per annum, an investigation and report will be made, upon request, as to whether such bond is amply secured.

7. It is understood that the manner of making the valuations is to be briefly described in the introduction to the valuation pamphlet as published, to the end that I may receive that public credit for doing this work, to which I am fairly entitled on account of the use of my facilities and such responsibility as is evidenced by this agreement.

8. I agree that during the period of my official service with this Committee, I will not appraise securities for any insurance company.

9. I agree that, except as the completion of this work may be unreasonably delayed through the share therein of representatives of the New York Insurance Department, I will complete and deliver to you the list of valuations as follows, to wit: Not later than midnight of January 8th, 1916, for all municipal securities (excluding foreign bonds) and not later than midnight of January 12th, 1916, for all other securities, including foreign bonds.

10. Additional valuation of securities, not contained in the lists referred to, are to be furnished up to November 1st, 1916, to any State Insurance Department requesting the same and furnishing the necessary data.

If the above arrangements prove satisfactory to you, I would appreciate receipt of your written approval thereof at an early date.

Yours respectfully,

List of States which made contributions for the 1915 pamphlet, but which have not yet contributed toward the 1916 volume:

North Dakota	\$100 00
Texas	100 00

Oregon	25 00
Pennsylvania	500 00
New Hampshire	25 00
California	250 00
West Virginia	100 00
Louisiana	40 00
Nebraska	100 00
States not heretofore contributing which have contributed toward the 1916 volume:	
Tennessee	\$100 00
Montana	150 00
States which in the 1916 contribution show an increase over 1915:	
	1915. 1916.
Illinois	\$300 00 \$350 00
Kansas	25 00 50 00
Ohio has decreased its contribution from \$250 toward the 1915 volume to \$200 toward 1916.	

The report was received as information.

Unfinished Business.

Commissioner Hardison, of Massachusetts, moved that a Committee on Unfinished Business consisting of seven members be appointed to consider the matters to be acted upon by this Convention.

President Mansfield appointed Commissioners Works, Young, Hardison, Scott, Chorn, Harper and Secretary McMaster of the Convention.

On motion of Superintendent Phillips, in order that the several committees might hold their meetings, the Convention then adjourned until 2 p. m.

TUESDAY AFTERNOON, DECEMBER 7TH.

The Convention was called to order at 2:45 p. m. by the President.
Commissioner Potts: I desire to offer the following resolution:

Social Insurance.

New York, December 7th, 1915.

Be it Resolved, That the Chairman of the National Convention of Insurance Commissioners, now assembled, appoint a permanent committee of five, to be known as a Committee on Social Insurance, which Committee shall make a thorough investigation of the subject of social insurance in all its phases and from time to time make such reports and recommendations to the convention as the committee finds the subject demands.

Commissioner Button: I move that the resolution be referred to the Executive Committee.

Commissioner Potts: I object to that procedure because I believe the matter is one that will require the consideration of a permanent committee and that it ought not to be lodged with the Executive Committee. I, therefore, urge the adoption of the resolution.

Commissioner Button: I believe the Constitution requires that the matter be referred to a standing committee and that it has been the practice of the committee to refer all matters to standing committees wherever possible. I, therefore, offer as an amendment that the matter be referred to the Executive Committee for investigation and report.

Commissioner McMaster: May I suggest that Commissioner Potts explain the matter further before a vote is taken?

Commissioner Potts: The most valuable asset of any country is its individuals, and anything that will add to their welfare is desirable. I thought it highly desirable that the Convention should take this action now.

Commissioner Shehan: It seems to me that the proper method of handling this matter is that prescribed in the Constitution and By-laws of the Convention.

The Chair: The Constitution provides that every subject shall be referred to its appropriate committee, but there seems to be some doubt in this case whether there is an appropriate committee.

Commissioner Merrill: I think the subject is one of sufficient importance to justify the appointment of a standing committee and I, therefore, move to amend the resolution so as to provide for the appointment of a standing committee instead of a special committee.

Commissioner Button: I desire to withdraw my amendment.

Commissioner Merrill's amendment, providing for the appointment of a standing committee on the subject of social insurance, was thereupon duly seconded and unanimously carried.

Sub-Committee Appointed.

Commissioner Shehan: Pursuant to a resolution adopted yesterday, I desire to appoint as members of the sub-committee of the Committee on Reserves Other Than Life, Commissioners Button and Winship.

Commissioner Hardison: Pursuant to the same resolution, I desire also to appoint as a member of said sub-committee, Commissioner Phillips.

Fire Insurance Reserve.

Commissioner Nesbit: I desire to offer the following resolution:

"Be it resolved that the Committee on Reserves Other Than Life be instructed to investigate the matter of fire insurance reserves, especially with respect to a change of basis from a percentage of the premium collected to a percentage of the risk assumed and also with regard to the conflagration reserve requirement."

The above resolution was duly seconded and adopted.

Commissioner Hardison: I desire to present the report of the Committee on Reserves Other Than Life, and will ask the Secretary to read the same:

Report of Committee on Reserves Other Than Life.

The Committee on Reserves Other Than Life begs leave to submit the following report:

At the September meeting of this Convention a report was presented and adopted, setting forth the need of a change in the method of computing the loss reserves on liability and Workmen's Compensation insurance. It was suggested therein that the experience in one of these branches of insurance was not a proper basis for computing the claim reserves of the other branch and that study be given the situation to determine if the laws of the several States which set forth the method for the computation of such reserves require the use of liability experience in computing compensation reserves. Indeed, the committee asked the sanction of the Convention to make such investigation as it might deem necessary and to report to the December meeting of the Convention.

In order to carry out this purpose a meeting of your committee was held in New York City on November 12th. All the companies transacting these lines of insurance were apprised of the situation and invited to appear before the committee and express their views. A large proportion of the interested companies were represented at that meeting and two questions were discussed, namely:

First, the construction to be placed on the present loss reserve law of the several States which have a statute on this subject, the question involved being whether such laws would permit the companies to reserve for compensation claims on the basis of 54 per cent. for December 31st next; and

Second, the necessity of a new loss reserve law for both liability and workmen's compensation insurance.

In respect to the first proposition the expressed views were unanimous on the part of the companies that liability experience furnishes no proper basis for a reserve for determining compensation losses outstanding; and they were nearly unanimous in an opinion that the possible interpretation of the statute of New York, for example, should be adopted which would put the loss reserves of liability business on liability experience and of Workmen's Compensation business on Workmen's Compensation experience.

The companies also expressed the belief that the present laws relating to loss reserves for these two classes of insurance should be amended, even though they should now be interpreted to permit the computation of the reserves for claims for each class on its own respective experience.

The committee solicited the views of the companies as to how these reserve laws should be changed, and after brief discussion of this point, it was announced that a meeting of the companies would be called at once and a committee chosen to express to your committee at an adjourned meeting the company conclusions as to the amendment needed. Thereupon the hearing was adjourned.

The committee, however, in executive session discussed the situation, but owing to the lack of a quorum, took no formal action. It was the expressed sentiment, however, that the compensation reserves of the companies for the year 1915 be made on the 54 per cent. basis for all companies and not simply for a part of them. An adjournment of the committee to December 4th was then taken.

At this adjourned meeting a quorum was present, and the reports of the committee of the companies were presented. The majority report was favored by nearly all the companies represented on the committee and was in favor of retaining the essential features of the present law, but of separating the experience of the liability business from that of the compensation and for increasing the loss

ratio for reserves. These amendments would not greatly simplify the law now in force.

The committee after hearing company representatives, both those on the committee and those who were not, discuss the situation, went into executive session and reports the following as its conclusions and briefly states its reasons therefor:

1. There should be a change in the present statutes, which prescribe a method for computing loss reserves for liability and Workmen's Compensation insurance. This is evident from these facts:

(a) The unfortunate results of an indulgence in rate-cutting are not soon enough reflected in statements of a company.

(b) Under the construction hitherto given to such laws, they relate unrelated kinds of business and thus require reserves to be set up for one class on the experience of another class, which widely differs.

(c) Any change in the laws affecting the amount that companies must pay on account of losses is not reflected for a long period in the reserves to be put up as the effect of such change is delayed in working into the experience upon which the reserves are based.

(d) A comparison shows that new companies reserving on the percentage basis fixed by the law for companies without experience have to put up less reserves than older companies on their own experience, whereas as a rule there is no warrant in fact for this discrimination.

(e) The statute is complicated, the statistics require most expert handling in auditing by insurance departments, and when results are obtained under it, they are not representative of the real condition, since they may not, and frequently do not, even approximate the amount which a company will be called upon to pay on account of its unsettled claims.

For these reasons, all of which are supported by a study of the experience of the companies as shown by the returns made by them, your committee is of the belief that there should be a change in the loss reserve laws, which now furnish the basis on which Schedule P of the annual statement blank is made up, but we are not ready at the present time to make definite recommendations as to changes. We believe that the addition of the 1915 Workmen's Compensation experience to that already in hand will help much in clearing the situation and in coming to a conclusion as to what should be done. The fact that in some States within a half dozen years, we have had two distinct laws based on two different hypotheses for calculating loss reserves, neither of which gives proper results, should make us a little conservative in recommending a new plan for legislative adoption. Moreover, it is doubtless the fact that the situation is not becoming worse by the delay, that is, that loss reserves are not becoming more and more inadequate from year to year.

2. The second of your committee's conclusions is that the loss reserves for Workmen's Compensation in the annual statement for 1915, but extending no further, may be computed on a basis of 54 per cent. of earned premiums, less amount of claims and claim expenses paid, and that a supplementary Schedule P, providing for a complete separation of liability and Workmen's Compensation experience be furnished to the companies upon which they shall be required to make these supplementary returns in addition to those contemplated by Schedule P, now a part of the annual statement blank.

The reasons for this conclusion are as follows:

(a) The discrimination which in practice results from the statute, as it has been construed. A new company in the liability field has been required to put up compensation loss reserves on a percentage basis, while a company long in the liability field has been required to put up compensation losses on the basis of its liability experience, which results in the older company putting up heavier reserves for compensation losses than the newer one, although the latter will require a larger percentage to settle its outstandings.

(b) If any interpretation can be given the statute in question by the Commissioners of those States which have it, which will remove this injustice, it is in the interest of fair play that it be done, unless there appears some reason for concluding that justice in this direction will work injustice elsewhere. Figures compiled by the New York Insurance Department show that if the companies reserve on a 54 per cent. basis for compensation losses, it will for nearly all the companies in all probability be sufficient to settle their respective outstanding losses as of December 31st, 1915, and in those cases where it is not sufficient for that purpose, the deficient companies would not be required to put up more under the construction of the law which has hitherto prevailed, as they would come under the 54 per cent. provision with either construction.

(c) Only nine States have the liability loss reserve law upon which the present Schedule P of the annual statement blank is based. The nine only are taking any responsibility in indorsing a construction of the law different from that which has hitherto prevailed, but such change in construction and the filing of the additional information proposed by the supplementary Schedule P will afford the Commissioners of the other thirty-nine States, whose laws are silent on the subject, a better basis for judgment than they have had hitherto when they have for the sake of uniformity accepted the results derived from laws of other States, while believing, perhaps, that those results are unjust and indefensible, as is now held by this committee.

Respectfully submitted,

FRANK H. HARDISON,
JESSE S. PHILLIPS,
SAM'L. W. McCULLOCH,
WM. M. SHEHAN,
JOHN T. WINSHIP,
GUY W. BAILEY,
E. R. HARPER,
W. K. CHORN,
J. E. PHELPS,
JOS. BUTTON,
M. J. CLEARY,
S. D. WORKS.

On motion of Mr. Hardison the report of the committee was unanimously adopted.

Commissioner Hardison: In view of the acceptance of this report by the Convention, I move that we request the Committee on Blanks to prepare a supplemental schedule "P" to be sent out to the various companies with instructions to make their returns in accordance therewith.

The motion was duly seconded and carried.

Commissioner Hardison: I desire to present the report of the Special Committee on Workmen's Compensation Insurance.

The Secretary read the report, which was as follows:

Report of Committee on Workmen's Compensation Insurance.

To the National Convention of Insurance Commissioners:

This Committee was appointed pursuant to the following resolution offered by Superintendent Hasbrouck of New York, at the December, 1914, adjourned meeting of the Convention, held at the Hotel Astor, New York City:

"Resolved, That the chair appoint a committee of three on Workmen's Compensation Insurance, and that this committee have power to add to its membership the representative of any other State or States having supervision over Workmen's Compensation insurance rates, whether through State Boards, Industrial Commissions or Insurance Departments."

The Committee as appointed consisted of the following:

Frank Hasbrouck, Superintendent of Insurance, New York.

Frank H. Hardison, Insurance Commissioner, Massachusetts.

Herman L. Ekern, Insurance Commissioner, Wisconsin.

Through a misunderstanding on the part of the Committee, no report was rendered to the Convention at its California meeting, and it now desires to submit such a report.

By arrangement with Commissioner Ekern, Dr. E. H. Downey, then Statistician of the Industrial Commission of Wisconsin, was designated by him to serve on this Committee, for the reason that, under the laws of that State, the Commission, and not the Insurance Department, has specific supervision of matters pertaining to workmen's compensation insurance. Representing the Insurance Departments of Massachusetts and New York, Messrs. W. N. Magoun and H. E. Ryan have been designated to serve on this Committee in behalf of their respective departments.

A meeting of the Committee was held at the Hotel LaSalle, Chicago, Ill., on January 13, 1915. Owing to the fact that the members of this Committee at that time were members also of the Permanent Committee on Workmen' Compensation Insurance Cost of the National Association of Industrial Accident Boards and Commissions, it seemed desirable to outline the particular kind of work which this Committee expected to take under consideration. Accordingly the following statement was made for the purposes of record:

"Inasmuch as there has been organized the National Association of Industrial Accident Boards and Commissions, and a **Permanent Committee** thereof has been appointed to study and report to the Association upon certain questions relating to the general subject of workmen's compensation, it seems proper to this Committee of the National Convention of Insurance Commissioners, the present membership of which is included in the Permanent Committee of the National Association of Industrial Accident Boards and Commissions, to define in general terms its immediate scope in relation to workmen's compensation insurance, and the inter-relationship that will exist between the National Association of Industrial Accident Boards and Commissions and the National Convention of Insurance Commissioners.

For the present the Committee deems it advisable to give its first consideration to matters pertaining to the establishment of uniformity in the phraseology and application of manual classifications, and of matters relating to the compilation of data affecting the cost of workmen's compensation insurance."

The Committee wishes to direct attention to a resolution introduced by Commissioner Hardison of Massachusetts, at the adjourned meeting of the Convention held in Chicago in April, 1915, as follows:

"Whereas, it is highly desirable that Workmen's Compensation Statistics be returned by the insurance companies to the Insurance Departments on a uniform basis, both for the purpose of lessening the work and expenses of the companies and for increasing the value of such returns.

"Resolved, That the Committee on Blanks be directed to investigate and report a schedule adapted to obtaining these statistics in a form best calculated to further the work of the Insurance Departments."

And to the action of the Convention at Monterey in referring such resolution to a sub-committee of the Committee on Blanks. (See Page 51 of the Proceedings of the California Convention.)

It is the judgment of this Committee that questions relating specifically to workmen's compensation statistics should be referred to it rather than to the Committee on Blanks or a sub-committee thereof, for the following reasons:

1. Workmen's compensation problems demand close study on the part of those States which have official responsibility in connection with the approval of premium rates and the regulation of unfair discriminations.

2. From the administration of such regulatory powers the statistical requirements of such States become a matter requiring local treatment such as only a committee of this nature will be equipped to develop and apply.

3. The Committee on Blanks exists primarily for the purpose of promoting general uniformity throughout the United States in matters pertaining to the affairs of companies as a whole.

4. The membership of the Committee on Blanks will not necessarily be representative of those States which have these peculiar problems under consideration.

In view of the foregoing considerations, the Committee recommends, for the adoption of this Convention, the following resolution:

"Resolved, That the resolution introduced by Commissioner Hardison of Massachusetts (above quoted) and adopted by the Convention at its Chicago meeting in April, 1915, be amended to read as follows:

"Resolved, That the Committee on Workmen's Compensation Insurance be directed to investigate and report to this Convention the question of schedules which shall be adapted to obtaining uniform statistics relating to workmen's compensation, to the end that there may be the minimum of labor and expense required of the insurance companies, and so that such statistics may attain the greatest possible value, and be it

"Resolved, That this resolution, when adopted, shall be understood as referring this subject to the Committee on Workmen's Compensation Insurance, and that the Committee on Blanks shall be forthwith discharged from further consideration thereof."

Since the appointment of this Committee in December, 1914, it has been ascertained that the following additional States have the approval of workmen's compensation rates:

California, Colorado, Maine, Maryland, Oklahoma, Pennsylvania and Texas, and it is expected that the appropriate representatives of these States will become members of this Committee. For geographical reasons, it will not be possible for so large a Committee

to meet at frequent intervals, hence it is contemplated that there should be a working sub-committee consisting of the representatives of New York, Massachusetts and Pennsylvania, thus carrying out the scheme which has been found workable and satisfactory in the case of other committees of this Convention.

As a matter of record, the Committee desires to announce that a general conference on the subject of workmen's compensation rates has been in progress in New York City from September 28th to practically the present time, which conference has had as its object the general revision of manual rates, classifications and rules, for the purpose of establishing uniformity throughout the several compensation States. Representatives of New York, Massachusetts, Maryland, Pennsylvania and California (by proxy) departments, as well as a representative of the Industrial Commission of Wisconsin, have participated to a greater or less extent in its deliberations. As a first step toward ultimate uniformity in rate-making for this class of business, the statistical insurance experience of Massachusetts, Wisconsin, New Jersey and Illinois has been used either separately or in consolidation, as circumstances require. The New York Insurance Department contemplates an experience compilation based upon business written during 1914, which will be available about the middle of 1916. In the meantime, rates will be based upon the combined experience of the other States above mentioned, with such exceptions as may be necessary to reflect local conditions.

The Committee presents for your consideration the resolution introduced at the adjourned meeting held in Chicago last April and reported on page 20 of the proceedings thereof, relative to the expenses of conducting the business of workmen's compensation insurance. This resolution was referred to the Committee on Rates of Insurance Companies, but in line with the purpose of certain other suggestions made herein, it is recommended that this matter be referred at this time to the undersigned Committee.

In conclusion, it seems advisable to suggest, in view of the growing importance of workmen's compensation, that this Committee be constituted a standing committee of this Convention.

Respectfully submitted,

FRANK H. HARDISON, Massachusetts,
JESSE S. PHILLIPS, New York,
M. J. CLEARY, Wisconsin.

New York, December 7, 1915.

On motion duly seconded, the report of the committee was adopted.

Real Estate Investments.

Commissioner Dunbar: I would like to move that the Committee on Assets of Insurance Companies be requested to inquire into the real estate investment of insurance companies and report back to the Convention at the September meeting.

The motion was duly seconded and adopted.

Certificates of Deposit.

Commissioner Dunbar: I would like to move that the Committee on Assets of Insurance Companies be requested to consider whether

bank certificates of deposit held by insurance companies should be considered an admitted asset, and report back to this Convention.

The motion was duly seconded and carried.

It was moved that when the Convention adjourn, it adjourn until 10 o'clock tomorrow morning.

Adopted.

On motion the Convention adjourned.

SECOND DAY.

December 8th, 1915.

The Convention was called to order at 10:45 A. M. by the President, Mansfield.

Secretary called the roll by States.

The Chair: Pursuant to the resolution of Mr. Potts, which was offered yesterday afternoon, providing for the appointment of a standing committee on Social Insurance, I am ready to announce that committee, but am going to ask Mr. Potts to explain to us more fully just what he means by Social Insurance, so that we may understand the matter.

Superintendent Potts: The field of Social Insurance should, in my judgment, be applied solely to wage earners, to old age insurance, accident insurance, unemployment insurance and sickness insurance.

The purpose of the resolution was to meet the demand that is being made for information respecting this class of insurance throughout the United States. It seemed to me desirable to get accurate, complete and reliable data, and I felt that this Convention was the best medium through which this could be done.

Another matter of importance is the question whether this insurance should be supplied by voluntary organization or through the State.

The difficulty that will arise, if the State assumes this function of insurance, is that the next generation will look forward to the fact that their parents were taken care of by the State during the time they were unemployed, and through the period of time lost by accident, and therefore unconsciously become State dependents. The result will naturally be that men will cease to be citizens with independent ideas and opinions on public matters, and will become imbued with the idea that the State should take care of them when they cannot take care of themselves. I think that this is the difficulty that will follow State insurance. The action by the Convention at this time will tend to correct some of these erroneous ideas. I have discussed this matter with some other associations, and there is going to be called a convention of the various organizations that are interested in social insurance to meet early in January, when they will undertake to work out a plan. I think that our committee should attend that convention and co-operate with them.

Committee on Social Insurance.

Chairman Mansfield: I will appoint as members of that committee, Messrs. Potts, Phillips, Young, English and Nesbit.

Commissioner Button: I desire to present the report of the Executive Committee regarding whole family insurance by fraternal, and move that the report of the committee be adopted.

Whole Family Insurance By Fraternal.

The Executive Committee reports that it has considered the matter of Whole Family Protection by Fraternal, and recommends that it be laid over for consideration at the April meeting of this Convention, and it recommends to all Departments that no action be taken in reference thereto until the matter has been fully considered, and its limitations prescribed by this Convention, and that pending such consideration all legislation in regard thereto be opposed.

JOS. BUTTON, Chairman;
J. E. PHELPS,
FRANK H. HARDISON,
JESSE S. PHILLIPS,
BURTON MANSFIELD,
JAMES R. YOUNG,
JOHN T. WINSHIP,
EMORY H. ENGLISH,
ROBERT J. MERRILL,
F. H. McMASTER.

Motion was duly seconded and adopted.

Commissioner Button: I desire to submit the following report of the Executive Committee and report of the Sub-Committee on Blanks.

The Executive Committee reports that it has approved the following report of the Sub-Committee on Blanks, and recommends its ratification by the Convention.

JOS. BUTTON, Chairman;
J. E. PHELPS,
FRANK H. HARDISON,
JESSE S. PHILLIPS,
BURTON MANSFIELD,
ROBERT J. MERRILL,
EMORY H. ENGLISH,
JOHN T. WINSHIP,
JAMES R. YOUNG,
F. H. McMASTER.

(The Committee on Blanks was requested to send copies of supplementary Schedule P to the several departments and advise them of its adoption by the Convention.)

To the Executive Committee, National Convention of Insurance Commissioners:

The Sub-Committee of the Committee on Blanks, in accordance with instructions received from Convention, present herewith a Supplementary Schedule P, so prepared as to bring about a separation of the business of Workmen's Compensation and Liability writings.

This schedule, as prepared, carries on the title page, "Instructions to Companies," which conforms to the plan contemplated in the report of the Committee on Reserves Other Than Life.

HENRY D. APPLETON,
FRANK H. HARDISON,
H. PIERSON HAMMOND.

Commissioner Shehan: I desire to present the report of the Subcommittee of the Committee on Fidelity and Surety Companies, which I will ask the Secretary to read.

Uniform Bill on Surety Companies.

Resolved, That in case the Committee on Fidelity and Surety Companies shall agree upon a uniform bill on the subject of fidelity insurance and corporate suretyship prior to the next meeting of the Committee, such bill be submitted to the Executive Committee with power to act for this Convention.

On Mr. Shehan's motion, the report of the committee was unanimously adopted.

Commissioner Cleary: I desire to present the report of the committee appointed to draft a uniform fire insurance policy.

Uniform Fire Insurance Policy.

The Special Committee on a Uniform Fire Insurance Policy begs leave to report the following Resolution:

Resolved, That the Special Committee on Revision of the Standard Fire Insurance Policy be instructed to make such amendments to the form adopted by the Convention in December, 1914, as would appear to such committee necessary or advisable.

Resolved, further, That a copy of the policy, as amended by such special committee, be mailed by the Secretary of this Convention to the Insurance Commissioner of each State, together with a memorandum explanatory of the several changes, and that, on the Secretary receiving the written approval of the amended form from a majority of the members of this Convention, such form shall be held to be in substitution of the form adopted in December, 1914, and shall be known as and deemed to be the standard fire insurance policy adopted by the Insurance Commissioners' Convention.

M. J. CLEARY, Chairman;
J. S. PHILLIPS,
SAML. W. MCCOLLOCH,
JAMES R. YOUNG.

On Mr. Cleary's motion, the committee's report was unanimously adopted.

Commissioner Merrill: I desire to present a report of the Committee on Assets of Insurance Companies regarding the amortization of securities.

Amortization of Fraternal Securities.

The Committee on Assets of Insurance Companies, to which was referred the following resolution of the National Fraternal Congress, submitted to the Convention for its consideration:

"Resolved, That the Committee on Statutory Legislation be instructed to continue their efforts to secure the adoption in the several States of the Union of the Amortization Plan of Valuation of Securities held for the Surplus or Reserve Funds of Fraternal Benefit Societies," having considered the same, report the following resolution:

Resolved, That in the opinion of this Convention the amortization plan of valuation of securities held by fraternal benefit societies is proper and should be permitted.

ROBERT J. MERRILL,
JESSE S. PHILLIPS,
FRANK TAGGART,
FRANK H. HARDISON,
GUY W. BAILEY,
C. F. NESBIT.

I move the adoption of the report.

The motion was duly seconded and adopted.

Commissioner Merrill: I present a report of the Committee on Assets of Insurance Companies regarding excess interest. It was the opinion of the committee that the matter was one concerning which it did not have the requisite expert advice, and that, pending definite decision of the matter, no change should be made in the situation.

Excess Interest Valuations.

The Committee on Assets of Insurance Companies, to which was referred the following resolution of the National Fraternal Congress, submitted to the Convention for its consideration:

Resolved, That in the opinion of the National Fraternal Congress of America, societies are entitled to and should be given credit as assets for the present value of the sum payable under each investment which matures at a specific date, and of the interest to be hereafter received thereon at the actual rate being paid, and to be paid on such investment, said present value to be determined on the basis of the rate of interest employed by such society on the valuation of its certificates, and the number of years to intervene before maturity, thus securing the benefit of actual amortization unaffected by the accident of market value on the day when a statement of condition chances to be required, and that the Executive Committee be and is hereby directed to use all proper efforts for such amendments to the laws of the various States as may be necessary to secure this result.

Having considered the same, report that a sub-committee, consisting of Messrs. Phillips of New York, Hardison of Massachusetts, and Nesbit of the District of Columbia, has been appointed, to which the matter has been referred, and recommends the adoption of the following resolution:

Resolved, That it is the sense of the Convention that, pending disposition of the subject, Fraternal Benefit Societies should not be permitted to take credit in their valuations for the excess of

interest earned by their securities over the rate assumed in making such valuations.

ROBERT J. MERRILL,
JESSE S. PHILLIPS,
FRANK TAGGART,
FRANK H. HARDISON,
GUY W. BAILEY,
C. F. NESBIT.

Commissioner Merrill: I desire to submit the report of the Committee on Assets of Insurance Companies in reference to special deposits. I also desire to present a report of the minority of the committee, and move that the minority report be substituted in place of that of the majority.

I regret that I am unable to agree with the majority of my committee with respect to this matter which has been before it so long. I think I feel sorrier, however, for the majority of the committee than I do for myself.

I am not going to present to this Convention anything in the nature of a lengthy argument in favor of the rescinding of the so-called Burlington resolution. All I have to say is that the arguments which have been made, and which I have considered during a study of this matter lasting over three months, has convinced me that the Burlington resolution setting up a method of audit with respect to that part of a company's assets which is represented by special deposits ought to be the same as the method used in respect to every other asset of the company, and that it should be made upon the basis of the company's condition on the date of the rendering of the statement to the insurance department, in which assets and liabilities are stated in accordance with the best information which we supervisors have to enable us to determine the company's condition. I do not believe that it is proper to audit the special deposits of the company, or that portion of its assets represented by a special deposit with relation only to the possible insolvency of the company, whereas every other asset of the company is considered on the basis of the company's condition on a given date.

The Burlington Rule.

The Committee on Assets of Insurance Companies, to which was referred the reconsideration of the resolution adopted by the Convention in Burlington in 1913, with reference to Special Deposits, as follows:

"Resolved, That special deposits in excess of the corresponding liabilities should not be allowed as assets in annual statements of insurance companies," having considered the same, report with the recommendation that the resolution be reaffirmed.

FRANK TAGGART,
FRANK H. HARDISON,
GUY W. BAILEY,
C. F. NESBIT,
T. M. HENRY.

The undersigned, a minority of the Committee on Assets of Insurance Companies, report that they are unable to agree with the majority of the committee in recommending that the resolution adopted by the Convention in Burlington in 1913, with reference to special deposits, be reaffirmed, and report the following resolution:

Resolved, That the action of the Convention in adopting such resolution be rescinded.

ROBERT J. MERRILL,

JESSE S. PHILLIPS.

The Chair: The motion is that the report of the minority of this committee be accepted in lieu of the report of the majority.

Commissioner Nesbit: I believe that I ought to explain my position. As I stated yesterday before the committee, and am willing to state here, this question of special deposits is fundamentally wrong. The law under which these special deposits are made creates a trust that attaches to it, and stamps it with a special character. It is not a free asset of the company. It is not available for the people who have not that special deposit. If we start this proposition now we are opening a door that is going to plague us for years to come. It is not an asset that is worth anything. It does not amount to very much now, perhaps, but you are opening the door. I am going to vote against this resolution.

Superintendent Chorn: This matter was brought up at the Del Monte Convention, and was passed over to this meeting. Prior to that time, in an examination in which the Missouri department participated, this point was called to my attention. There was a division of opinion among the examiners as to whether or not that portion of a special deposit, which was not covered by the reserve, should be included as an asset. I gave the matter a good deal of thought, and finally came to the conclusion that there was no excuse why it should not be regarded as an asset at the time the report was made out, namely, December 31—not January 1, nor January 30th, nor any other date, but as of December 31—and I could not, for the life of me, see why that portion of the special deposit which was not covered by the reserves should not be counted as an asset. It is just as good as, and probably better than, some of the assets of some other companies, and I took that position then, and I expect to follow it up here by voting in favor of the adoption of the minority report.

Mr. Nesbit says that it will come back to plague us. I say that if we adopt the majority report we are going to be plagued. Suppose ten other States should adopt the rule of requiring a special deposit of \$100,000.00 each—and it is not at all improbable—and you had a company with a million surplus that had not written a policy, by the time that company writes its first policy it will be technically insolvent. This practice was followed for several years until 1913. I have no objection to having the Committee on Blanks provide that these special deposits be shown in a footnote so that there can be

no mistake. I do say that if we are going to make a report as of that date (December 31st), the things that are assets as of date should be credited to the company. I admit that after December 31st, possibly other liabilities might accrue, but your financial statement should be as of that date and no other.

Then there is another thing. We have got to admit either that the standard that we are using and which we have used is wrong, and that it has been wrong for years, or we have got to adopt the minority report. I shall vote in favor of the adoption of the minority report.

Commissioner McMaster: The majority report not only seems to be, but is, as I understand it, actually predicated first, upon the theory that the reserve requirements that this Convention has made are not sufficient and not adequate, and, therefore, they are unwilling to take the trial balance of a company on a specific date as showing its real condition; and because of the further assumption that a contingent liability may arise—contingencies may happen, the probabilities of which are even. Not only do they assume that these reserves are not adequate, and that these contingencies are going to arise, and that therefore these special deposits in excess of liabilities must be excluded, but they proceed on that theory to show the financial condition of the company in respect to those States that have no special deposits the more hazardous because if the reserve deposits are depleted the company's second condition is worse than its first if we proceed on the theory of the majority of the committee.

Commissioner Winship: I think undoubtedly that it is an asset, but it is not a free asset. It is not free for Michigan.

Superintendent Chorn: As of December 31, if the reserve is adequate he will get his proportionate part of it, and it is a free asset as of that date.

At this point Commissioner Winship was called to the chair.

Commissioner Mansfield: Prior to the time when the Burlington rule was adopted there was a variety of practices in the manner of treating special deposits. Our aim was to see if we could not adopt some uniform rule so that all the commissioners could put themselves on record. Uniformity was the object we had in mind, and that is the object we have in mind respecting many other questions that come before us. When that matter was considered at the meeting in Hartford, the representatives of the surety companies were there, and without objection the Burlington rule was adopted. They were given their day and opportunity in court, and there did not seem to be the slightest question why that rule should not be adopted. The first year after its adoption it was not imposed because it was near the 31st of December, and so it was suggested that a footnote be inserted in the annual statement, calling the attention of the various companies to the new special deposit rule. At Del Monte, and also at Chicago last spring, the matter was revived on the theory that the companies were not being treated quite fairly in the way in which we handled the matter. At Del Monte, as I like to be as

fair as possible, I moved that the matter be sent back to the Committee on Assets of Insurance Companies for reconsideration, although I had no sympathy with the motion, but to show that I had no desire to set my own personal opinion above other members of the Convention, I was only too glad to make it. The matter was referred back to the committee for reconsideration. It has had that reconsideration, and the report of the majority and the minority is before you this morning. It goes without saying, gentlemen, that there are certain States, communities or districts which require special deposits. I would that the feeling of this Convention in regard to special deposits might prevail generally throughout the United States, and that the whole of them might be absolutely abolished. Such, however, is a dream from the present standpoint. The very idea of a special deposit carries with it something different from a general asset. If a special deposit is made only to be used the same as other assets may be used, there is certainly no use in having the special deposit. Therefore, we must start out, it seems to me, to see if we can discover some reason why the States, districts or cities have attempted to create what they call special deposits. It has been done, gentlemen, for the express purpose of giving some people either of a State or a district a privilege and a priority over the people interested generally in the assets of a company. Otherwise there is no use in talking about special deposits, as it means nothing. The very inception of the thing means that the State of Connecticut—which does not require special deposits but if it should—would have an advantage over the citizens of every other State and community.

I think there are at least four aspects from which we should look at this question. There may be more. It is not a matter simply and solely of the 31st of December and of the annual statement which the company renders. Within the history of the insurance companies of my own State, a history with which some of you gentlemen are more familiar than I am, the annual statement was rendered showing a company solvent, but before twelve months had expired the company was in the hands of a receiver, and their December 31st statement was absolutely of no use or avail. Such things have constantly occurred in the past. These four points which I have in my mind are:

1. The solvency of a company.
2. Voluntary liquidation in the winding up of a company.
3. The withdrawal of a company from a State, and
4. Its continuation in a State, there being a special deposit.

Do you mean to say to me that, in the case of insolvency of the company, that the State holding that deposit is going to release it for the benefit of all the policyholders? That deposit in that State upon the insolvency or bankruptcy of the company is there for the purpose of protecting the policyholders, and giving priority to the policyholders of the State involved.

What becomes of a State that does not regard special deposits in the manner in which we contemplate it?

Does it mean anything? A company goes into voluntary liquidation. Is the Treasurer of the State, or other State officer which has the deposit in custody, immediately going to turn it over to the gentlemen who are settling the affairs of the company? I do not think so. That special deposit is going to be held by those State officers until the very last minute in the liquidation of the affairs of that company, and they are not going to release it until there are absolutely no more citizens in that State who have any right, title or interest in that deposit. If a company withdraws from a State, are you going to turn the deposit over immediately? Are you not going to satisfy yourself absolutely that there is no claim against it, and until you do satisfy yourself that there is no claim against it that deposit is held for the protection of those people and no other people, and it must be so considered.

Now, gentlemen, courts without number have held that a deposit made with a State officer under circumstances such as we have described is an absolute trust fund, just as much as if it was created by a trust deed, and cannot be delivered up by the officer holding that fund except in violation of his trust.

And what is that trust?

That that deposit must be held until every person who may have a claim against it has had an opportunity to present it, and be heard upon it.

Talk about your reserves! Yes, let us talk about reserves. The reserves of a company are held for its policyholders everywhere. Is there any segregation of reserves in South Carolina or Connecticut for the policyholders in those States? What does the State who requires a deposit think about the reserve question? Is it making demand for \$25,000, or \$50,000, or \$100,000 from companies desiring to enter, when there is already sufficient in the company's reserves to meet every policyholder's demand?

Now, my friends, there is a sacredness about this thing. It is not a mere practical question of whether you will do thus and so or not. There is a sacredness about this whole matter which we as Insurance Commissioners are bound to respect in the fulfillment of our duties, just so long as that trust fund may in the least possible way be availed of.

Commissioner Darst: What is your remedy?

Commissioner Mansfield: I do not know what the remedy is, except to abolish the whole business of special deposits, but we cannot do that. Everybody would welcome it.

My friend from Carolina says, let the special deposits go, and he will require surety bond. All right, let them go. Put up your surety bond. I have nothing more to say, but I do feel that, from a legal standpoint, and from the standpoint of duty, I have no right to overlook the situation which the companies are so infernally anxious to

create in order to get into a State to do business, and they have no right to come to us now and ask us to relieve them from a condition which they have created. It is not essential that you go into every State. Have some regards for the rights, and the duties and the obligations imposed upon you when you enter the State. That seems to me to be the point to be considered. It is not only true of surety companies but of every company doing business in the United States.

Now, gentlemen, I have had but one mind on this subject from the moment I began looking into it and have tried to express it.

At this point Mr. Mansfield resumed the chair.

Superintendent Phillips (New York): I have hesitated somewhat to say anything respecting this very important and complicated problem; and I hesitate all the more after hearing the eloquent speech of my friend, the President of this Convention, who has given to this subject the most careful thought and study. But I have given this subject some study and perhaps I fail to understand the object and purpose of the filing of the annual statement on the 31st day of December and of the audit subsequently made.

If I have misunderstood the purposes of that statement, of course what I shall have to say will fall to the ground. I supposed that the purpose of the statement made on the 31st day of December was to show the actual condition of the company on that date; and, with all due respect to the arguments that I have heard, they have failed to convince me that, after deducting all liabilities, the excess of assets in a special deposit is not an asset.

I want to say another thing: I agree with the statements that have been made with respect to the legal aspect of a special deposit. I agree that a special deposit which is made in a particular State or city is made for the express purpose of meeting the obligations of the policyholders within that State or city; and until those obligations are fully met, of course that special deposit cannot be released.

But you are constantly assuming a condition of insolvency. We are not dealing with a question of insolvency; we are dealing with a solvent company upon December 31st, if you please. Such a company is required in one column to show its liabilities and in the other column to show its assets. By what means do you determine the worth of the company as of that date? You determine the liabilities, as I understand it, for instance, upon the basis of your loss reserve and your actual losses, which are deducted.

In the case of the company that was mentioned as having a deposit of \$100,000 in Philadelphia, it had an actual liability charge of \$2,000, which left \$98,000 for some purpose. By what process of reasoning have you a right to say that on the annual statement date that is not an asset? I do not care whether it is a special deposit or whether it is for the benefit of all the policyholders. The \$98,000 is there, and why should not the company have a right to claim it as a part of its assets? Is that \$98,000 destroyed? It can be used for the payment of claims, and if the claims in the city of Phila-

delphia can be satisfied for \$2,000, then the \$98,000 would be available for the general policyholders. What right have we to assume that the standard which we apply in assuming the liability of a company for the general policyholders is correct and then, in the same breath, assume that the same standard applied to determine the liability in respect to a special deposit is incorrect and is not sufficient to meet the demands in the jurisdiction where such special deposit exists?

To my mind there is no good reason why a company should not be permitted to say to the public that it has those assets. I think, however, that if this Burlington resolution is rescinded we ought to require some kind of a statement, possibly by an explanatory footnote, showing to the people who are dealing with such a company that a certain portion of its assets is set aside as a special deposit, for the benefit of its policyholders within the territory which requires such special deposits.

It seems to me that the entire objection could be overcome by showing in the company's statement that a portion of its assets are held by some locality, or by some State, for the payment of its obligations within that territory.

If our standard of measuring a company's liabilities is wrong, then there should be a new standard provided; but I do not see how you can properly differentiate your standard in a locality where a special deposit is required from the standard which you use in determining the liability of the company with respect to the general policyholders.

Now, my friend from Washington has said that a company might use its entire capital in that way. I hardly believe they would be permitted to use their entire capital, because the statute requires that the minimum capital requirements must be, not for the benefit of the policyholders in a certain territory, but for the benefit of all the policyholders. We never could permit them to use their capital so far as the State of New York is concerned.

What we are dealing with is the excess. After a company has determined its liabilities in accordance with the rule and the standard which the States have prescribed, and there is an excess of two or three hundred thousand dollars which has been deposited somewhere as a special deposit, is not that an asset? Is it an asset or is it not? Under this Burlington rule it is not an asset. They might just as well not have it.

I can see no harm in treating such excess as an asset, and I do not fear that we are going to be caught in any kind of a trap, nor that a dangerous precedent will thereby be established. Any time that a company has not sufficient surplus you have your remedy, but when it has stated its liabilities in accordance with the rule and the standard which you require, it should have the right to show its actual assets, and the excess of a special deposit over the liability charged becomes a general asset.

I am opposed to the principle of special deposits. I think it is

wrong and selfish on the part of any State or territory to require it. I am not here to defend the surety companies who, I am told, are largely responsible for bringing about this special deposit evil. If they have been guilty of suggesting this requirement so as to make it impossible for rival companies, less strong financially, to compete with them, their action should be condemned. These companies undoubtedly could, if they so desire, do a great deal toward accomplishing the repeal of these special deposit laws, especially if they would refuse to go into territory where special deposit requirements exist. If they would let a particular State or district, which makes such requirements, confine its business to the companies within such State, it would unquestionably affect a speedy repeal of the law.

It seems to me, however, that to treat the excess of a special deposit otherwise than I have indicated, is unjust and unfair, and for that reason I have come to the conclusion that the Burlington rule was not based upon a sound or reasonable theory, and I shall accordingly vote in favor of the adoption of the minority report.

Commissioner Chorn: I would like to ask Mr. Nesbit if he will submit to a question or two?

Commissioner Nesbit: Sure.

Commissioner Chorn: The primary purpose of the annual statement is to show the condition of a company on a given date, is it not?

Commissioner Nesbit: Sure.

Commissioner Chorn: Now, if that is true, and our reserve standards are correct, is it not a fact that you include that excess? And that the excess is bound to be returned eventually?

Commissioner Nesbit: Eventually.

Commissioner Chorn: Now, if you amend that financial statement which is made to the department for the very express purpose of determining whether or not that company is sound financially, so that Mr. Hammond, here, or any of the other actuaries can say what those special deposits are—

Commissioner Nesbit: Are you asking me a question or are you making a speech?

Commissioner Chorn: I am asking you a question and as you have so kindly consented, I shall expect an answer.

If you show that condition and follow it up by showing what those special deposits are, can not any one see that a company is on the verge of insolvency as well as he could if the excess had been deducted in the very first instance?

Commissioner Nesbit: Is that your question?

Commissioner Chorn: That is my question.

Commissioner Nesbit: Do you want me to answer yes or no?

Commissioner Chorn: Yes or no.

Commissioner Nesbit: I say "yes".

Commissioner Hardison: I don't know whether there is any use of entering into this discussion. The last speaker but one who was heard stated that his mind is settled on the subject and is not open

to reason any further, and that he has made up his mind to vote in a particular way.

Superintendent Phillips: Only one vote though.

Commissioner Hardison: When he was speaking I thought perhaps I would say a word in respect to this matter, but since his mind is made up perhaps there is no use of my doing so.

The point I was going to make was this: His fundamental trouble is that he assumes that the statement on December 31st fixes the liability of an insurance company. That is not a fact. It comes nowhere near being the fact, as the auditors who handle these insurance statements could tell you. That is to say, the company's statement does not make it anywhere near certain that the liabilities which they report are correct, and even the auditor's report does not necessarily fix those liabilities. There may be liabilities, and there frequently are liabilities above and beyond anything that you know anything about, and these special deposits are to take care of those special contingencies.

If the company is solvent, who cares for a special deposit? What State cares for a special deposit? It is to take care of contingencies beyond what the assets will take care of—the general assets—that a special deposit is needed.

Now, in proof of this, let me point out to you the reports which have been made to this Convention, and which you will find in the printed reports of the statements of some of the surety companies that have been made under oath to the departments, and whose estimates of liabilities were not within fifty per cent. of what they afterwards had to pay. Some of those statements were passed by your auditors, some departments did not pass them but added very much more to those liabilities.

I have here some figures that I present to you and to the committee with respect to one single company—a surety company—that reported its outstanding liabilities to various insurance departments. Its estimates for a certain year for settling its outstanding losses were \$171,317. How much do you guess it took to settle those liabilities that afterwards developed? \$460,762, and then they were not all settled. The next year they reported \$114,213 as necessary to settle their outstandings, and they paid \$462,522 on those same liabilities and yet there were some left. The next figures are \$209,000 as an estimate, and they paid \$401,000; and so I could go on for half a dozen years for that same company, and you will find that there are other companies in exactly the same situation. You will find the figures, I think, in the printed reports of this Convention, showing the fact that the statements that are made as of December 31st to the insurance departments do not necessarily mean that the liabilities are fixed there by any means, and when you say that those special deposits in excess of the liabilities reported shall be allowed as general assets, you are simply taking chances against your own policyholders and your own State. I do not propose to do it.

Commissioner Chorn: May I ask the gentleman one question? If that was a report of your examiner as of December 31st, would you not accept that and take it for what it was stated to be?

Commissioner Hardison: I would not in the case of a special deposit by any means.

Superintendent Taggart: It seems to me that when I was first introduced to the Convention, that I was regaled with a diet of special deposits. At subsequent conventions I heard some more about special deposits, and in the interim I was called to New York to take up the subject of special deposits, so that it has become a regular diet with me, and I am inclined to stay by it.

But let us see, gentlemen. There are some fundamentals that ought not to be overlooked. It is generally admitted here that the purpose of your annual statement is to ascertain the financial condition of a company on a certain date. What does property consist of? Now what are the elements of property rights? The elements of property consist of the right to use and the right to dispose of the property or the thing itself. When the law of the State requires that a special deposit be placed with the Department of Insurance in that State, and when companies see fit to make that deposit, that much of the property of the company is deposited with the superintendent of insurance or with the treasurer of the State to abide by and be administered in conformity with the laws of the State governing such special deposits. The use of that property is transferred from the directors of the corporation of the insurance company and given over to the officers of the State, so that the company may not use those special deposits after they are there placed. The right to dispose of that much of the property of the corporation is transferred bodily to the Treasurer of the State or to the Superintendent of Insurance. Now, on the 31st day of December, suppose the deposit is made on that day and not one dollar of liability incurred. The right to dispose of that property—the right to sell it—the right to use it is absolutely transferred by the directors of the company to the officers of the State and you cannot get it out until the officers of the State are satisfied that there are no obligations existing there. Now, where are your property rights? What interest has the company in that? Can it be said that this is an asset of the company when it has been, by the directors of the company, given over to the direction and control of somebody else? Not at all.

You say you have got your reserves. True, but the reserves are for the benefit of all the contracting parties with that corporation, whereas the special deposit is placed with officers of the state primarily for the benefit and security of particular individuals, and for present liabilities and future contingencies. There is just the difference. The reserves go to all indifferently. The special deposits are placed as collateral security for the obligations already incurred and those which may be incurred in the future. The right of control, or the right of disposition, has passed over to some one else, and you

must go to that some one else to secure and get back if you can the right of control and the right of disposition. Can that be regarded as a property right? There is a contingent right there but it is not an absolute right. It is not a free asset. It is not anything that can be counted on for the general policyholders of that company. The directors of the company have passed it over and given it into the control of some one else, and with that view I have concluded that the majority report contains the correct, essential principle which should be adopted here.

Take another view. Suppose there is a special deposit in the state of Ohio, as there is one, of \$30,000, and some company in its annual statement would claim the right, in contravention of the Burlington rule, and I would simply as Superintendent of Insurance say you cannot get any credit for that, what are you going to do about it? Isn't it better to have uniformity in this, uniformity under the Burlington rule than, as Mr. Hardison, the gentleman from Massachusetts has said, than simply say to the company, you cannot get this credit?

I am opposed to the minority report and am in favor of adopting the report of the majority which re-affirms the Burlington rule.

Commissioner McMaster: I would like to ask Judge Taggart a question.

Superintendent Taggart: I don't know whether I shall be able to answer it or not.

Commissioner McMaster: I shall be very well pleased if you cannot.

Will you please differentiate between a general deposit in the State of New York and a special deposit in the City of Philadelphia, say? For instance, to bring it down to a concrete case. A foreign country must deposit with the State of New York \$200,000. So far as your property rights go, it seems to me that that passes into the hands of the superintendent of insurance or the state treasurer, the whole of that general deposit.

The special deposit in Philadelphia is to respond to the claims in Philadelphia which we will assume for the present are the reserves. Now, the reserves against the \$200,000 deposit are say, \$150,000. We will say the reserves against the special deposit in Philadelphia are \$2,000. There is an excess of \$98,000, in one case and an excess of \$50,000 in the other. How do you differentiate between those?

Commissioner Taggart: The difference is very clear. In respect to the general deposit, it is there for the benefit of all the policyholders who may have claims against the company, the reserves being there for that purpose. The special deposit is there primarily for the purpose of paying the liabilities for which it was deposited. Primarily, the special deposit is devoted to and must be expended for the purpose for which it was placed there.

Commissioner Merrill: Judge Taggart referred very feelingly to his connection with the matter of special deposits and I wish I could

tell you my story about it. I have dreamed of it by night and thought of it by day and had to get a new desk in my office and a new clerk to run my office so that I could give my entire attention to the matter of special deposits.

Mr. Taggart referred to the desirability of uniformity. I agree with him, the same, Mr. President, as you and I agree on the matter of Church Unity, on a certain basis. There is absolutely no question as to the advisability of this Convention taking uniform action.

Mr. President, I want to say that I agree with you and with Judge Taggart, and I am glad that I do, because although I am not a lawyer, I sometimes like to think that I do know something about the law, and when I find myself in agreement with so good lawyers as yourself and Judge Taggart, it is a great satisfaction to me.

These deposits are held in trust for what purpose? For the purpose of taking care of the liabilities in that jurisdiction. I don't want any questions asked me when I get through. Mr. Hardison has stated a clear case of insufficient reserves.

Commissioner Hardison: That is not the only one.

Commissioner Merrill: It seems to me that he has justified the existence of the Committee on Reserves other than Life of this convention, but the fact remains that we have set up a definite standard of measuring the liability of the company. We have a standard of reserves as to unearned premium and as to loss reserves established by this convention. The reason for my opinion is, as I stated at the opening of this discussion, that I have not been able to see, and I don't see, after listening to all the arguments of these gentlemen, for whose opinion I have the utmost respect, that there is any fairness in setting up one standard of valuation for a part of the property of the company and another standard of valuation for another part. It seems to me that there is the whole meat in the cocoanut. I am not going to take any time discussing this matter. I think the situation is fairly before the Convention and that we are as ready to vote now as we ever shall be.

The Chair: The question is on the adoption of the minority report of the committee and a roll call is asked for.

A roll call was had with the following result:

Affirmative: 11.

California

Maryland

Missouri

New Hampshire

New York

North Carolina

Pennsylvania

South Carolina

Tennessee

Virginia

West Virginia.

Negative: 17.

Alabama	Michigan
Colorado	Minnesota
Connecticut	Mississippi
District of Columbia	Ohio
Illinois	Oklahoma
Indiana	Rhode Island
Iowa	Vermont
Kentucky	Wisconsin
Massachusetts	

The Chair thereupon announced the vote as eleven (11) in the affirmative and seventeen (17) in the negative.

Commissioner Taggart: I will now move that the majority report of the committee be adopted as the action of this Convention.

Motion duly seconded and unanimously adopted.

Chairman of the Committee on Unfinished Business, Mr. Works: The Committee on Unfinished Business, Mr. President, has very carefully checked over the former business of the Convention and is unable to find that there is any unfinished business.

On motion, the report of the committee was accepted and the committee discharged.

Committee on Unfinished Business.

Superintendent Chorn: It was suggested yesterday by the Chair that a permanent committee be appointed on unfinished business, consisting of three members. I therefore move that such a committee be appointed by the Chair.

Motion duly seconded and adopted.

Superintendent Phillips: I desire to offer the report of the Committee on Laws and Legislation.

The report of the committee was received and read by the Secretary.

Report of Committee on Laws and Legislation.

To the National Convention of Insurance Commissioners:

The Committee on Laws and Legislation, having considered various reports and resolutions submitted to it, reports as follows:

Referring to the report of the Committee on Unauthorized Insurance, with reference to the preparation of a bill seeking to prevent the writing of unauthorized insurance, the following sub-committee of the Committee on Laws and Legislation is appointed for the purpose of considering the same and reporting to the adjourned April meeting.

Samuel D. Works, Minnesota.

Frank Taggart, Ohio.

C. F. Nesbit, District of Columbia.

Joseph Button, Virginia.

Jesse S. Phillips, New York.

The resolution of Commissioner Young in regard to the question of contingent commissions, as adopted at the Convention at Del Monte, directing the Committee on Laws and Legislation to take up this matter with the companies and agents, and have a proper

adjustment of the details, could not be arrived at to report a uniform bill covering the matter, and was, on motion, continued to the April meeting, with the direction that the companies and agents be requested to appear and present any suggestions that they have upon the subject.

The resolution of Commissioner Young (North Carolina), calling for a uniform bill "licensing of adjusters," referred to the following sub-committee to prepare bill to be presented at the adjourned April meeting:

James R. Young, North Carolina.

John T. Winship, Michigan.

Jesse S. Phillips, New York.

The resolution of Commissioner Merrill (New Hampshire) calling for investigation into the writing of so-called mercantile floater policies, referred to the following sub-committee for report thereon at the adjourned April meeting:

Robert J. Merrill, New Hampshire.

Charles Johnson, Pennsylvania.

Emory H. English, Iowa.

The resolution of Commissioner Merrill (New Hampshire) calling for changes in Convention bill or additional legislation in the matter of reciprocal underwriters, referred to the following sub-committee for necessary report at the adjourned April meeting:

Walter K. Chorn, Missouri.

William F. Dunbar, Tennessee.

Michael J. Cleary, Wisconsin.

Respectfully submitted,

JESSE S. PHILLIPS, Chairman.

FRANK TAGGART,

ROBERT J. MERRILL,

JOS. BUTTON,

EMORY H. ENGLISH,

JAMES R. YOUNG,

M. J. CLEARY,

JOHN T. WINSHIP.

Superintendent Phillips: In explanation of my name appearing on the committees named in the Report of the Committee on Laws and Legislation, I desire to say that that is by virtue of the action of the Convention yesterday in providing for the appointment of these committees. I move that the report of the committee be adopted.

Motion duly seconded and unanimously carried.

On motion, Convention adjourned until 2 o'clock this afternoon.

December 8, 1915, the Convention reconvened at 2:30 p. m., President Mansfield presiding.

On motion, Convention went into executive session.

On motion, Convention adjourned.

AFTERNOON SESSION.

December 8, 1915, the Convention reconvened at 4:30 p. m., President Mansfield presiding.

Commissioner Button: As Chairman of the Executive Committee, I desire to report that the committee has selected Richmond, Vir-

ginia, as the place for holding the next annual meeting of the Commissioners.

Commissioner Young: I desire to move that the previous action of the Committee on Examinations in regard to the method of making examinations be reaffirmed.

Motion duly seconded and unanimously adopted.

Commissioner Button: I move that the spring meeting of this committee be held at St. Louis, the date to be fixed later by the Executive Committee.

Motion duly seconded and adopted.

On motion, meeting adjourned.

MEMORANDUM OF PROCEEDINGS OF COMMITTEES OF THE NATIONAL CONVENTION OF INSURANCE COMMISSIONERS HELD AT HOTEL ASTOR, NEW YORK CITY.

DECEMBER 7, 1915

MINUTES OF THE COMMITTEE ON LAWS AND LEGISLATION SUPERINTENDENT PHILLIPS (New York) Presiding.

The Chair: The first subject for the consideration of the committee is found on page 40 of the Proceedings of the Forty-sixth Session of the Convention, respecting the matter of contingent commissions, which I shall read.

After discussion a motion was made by Commissioner Young (North Carolina) that the Convention notify the companies that an opportunity would be afforded them to be heard upon the subject of contingent commissions before the entire committee at the April meeting of the Convention.

The motion was duly seconded and unanimously adopted.

The Chair: The next subject before this committee is the resolution which appears on page 65 of the Proceedings respecting the licensing of adjusters.

This subject was discussed at length, especially by Messrs. Young and Winship, who explained the provisions of the laws of their respective States in regard to this matter and also by the Chair, who explained the provisions of the New York law.

Commissioner Works (Minnesota) thereupon moved that a sub-committee of three, to consist of commissioners who have laws in their own States concerning this matter, be appointed by the Chair to draft a bill to be submitted at the April meeting of the Convention and to be finally acted upon at the September meeting.

Commissioner Young moved to amend the resolution so as to provide that the chairman of the Laws and Legislation Committee should be chairman of the proposed sub-committee.

Commissioner Works accepted the amendment, which was duly seconded and unanimously adopted.

The Chair: The next matter for the committee's consideration is Commissioner Merrill's resolution appearing on page 65 of the Convention's Proceedings respecting reciprocal underwriters.

Commissioner Merrill (New Hampshire) explained his purpose in offering the resolution referred to and moved that a sub-committee of three members be appointed by the Chair to investigate and report to the committee at the April meeting.

The motion was duly seconded and unanimously adopted.

The Chair: There is another resolution on page 65 of the Proceedings offered by Commissioner Merrill in regard to the matter of the so-called mercantile floater policies.

Commissioner Merrill explained his purpose in offering this resolution and then moved that a sub-committee of three be appointed by the Chair with instructions to make an investigation and report at the April meeting of the Convention.

The resolution was duly seconded and unanimously adopted.

The Chair: I note that the Committee on Unauthorized Insurance made a report at the September Convention which was referred to this committee, which I will read:

After considerable discussion, Commissioner Works (Minnesota) moved that a special committee of five be appointed by the Chair, of which the chairman shall be *ex officio* chairman of such sub-committee, with instructions to prepare and present a bill at the April meeting of this Convention respecting the subject of unauthorized insurance.

The motion was duly seconded and unanimously adopted.

At this point the committee adjourned.

December 7, 1915.

MINUTES OF THE COMMITTEE ON ASSETS OF INSURANCE COMPANIES.

CHAIRMAN MERRILL (New Hampshire) Presiding.

The Chair: The matter before the committee for its consideration relates to the amortization plan for the valuation of securities of fraternal benefit societies which was brought before us by the National Fraternal Congress.

Commissioner Mansfield (Connecticut) stated that Connecticut had adopted that plan for fraternal societies as well as life insurance companies.

Commissioner Nesbit (District of Columbia) moved that that method be adopted by this committee.

The motion was duly seconded and carried.

The Chair: The next matter before us is that of giving credit for the excess interest earnings over the amount assumed in making estimates of outstanding liabilities of fraternal benefit societies.

At this point the following representatives of fraternal benefit societies were heard by the committee:

Mrs. Frances E. Burns, Great Commander of the Ladies of the Modern Maccabees.

Miss Bina M. West, Supreme President of the Women's Benefit Association of the Maccabees.

Mrs. Frances D. Partridge, Supreme Record Keeper of the Women's Benefit Association of the Maccabees.

Mr. S. H. Wolfe also participated in the discussion.

The committee then went into executive session. In executive session the resolution that had previously been adopted at the Convention respecting the fraternal matter was discussed at length by various members of the Convention, including Messrs. Nesbit, McMaster, Bailey, Hardison and Actuary Hammond of the Connecticut department.

At the conclusion of the discussion Commissioner Nesbit offered the following resolution, which was unanimously adopted, viz.:

"Resolved, That the matter of credit for excess interest earnings be referred to a sub-committee and that, pending the action upon the report of that committee, it is the sense of this Convention that fraternalists ought not to take credit for excess interest earnings while the matter is pending."

At this point the committee adjourned.

December 7, 1915.

MINUTES OF THE MEETING OF THE EXECUTIVE COMMITTEE.

Meeting called to order by CHAIRMAN BUTTON.

Mr. Appleton: I desire to offer the report of the Committee on Blanks and move its adoption.

The motion was duly seconded and carried.

The Chair: I desire to call attention to a communication which was received at Del Monte from the National Fraternal Congress of America, which was referred to the Executive Committee.

Commissioner Young moved that this matter be continued until the spring meeting of the Convention and that the parties desiring to be heard be notified and asked to be present at that time.

The motion was duly seconded and adopted.

On motion the meeting adjourned.

December 7, 1915.

MINUTES OF THE MEETING OF ACTUARIAL BUREAU.

COMMISSIONER YOUNG, Chairman, called the meeting to order.

The matter of requiring insurance companies to report to the Actuarial Bureau was discussed at length. It was agreed that the convention had gone on record and demanded of the companies the formation of the Actuarial Bureau as the best way of getting the reports, and it was the consensus of opinion that it was desirable to have all reports of losses made through this bureau, and the commissioners should require this to be done as far as they had the authority under the laws of their respective States; but, of course, it was understood, as stated by some of the commissioners, it was doubtful if they all had the authority to force the reports in this way.

No action was taken.

On motion the meeting adjourned.

MINUTES OF THE COMMITTEE ON ASSETS OF INSURANCE COMMISSIONERS.

December 7, 1915.

The meeting was called to order by the chairman of the committee, COMMISSIONER MERRILL, who explained the purpose of the meeting, namely, the reconsideration of the so-called Burlington rule relative to special deposits which was referred to the committee at the Monterey Convention.

The committee immediately went into executive session at which the so-called Burlington rule was taken up and considered at length.

At the conclusion of the discussion a motion was made that the Burlington rule, dealing with the subject of special deposits, be reaffirmed and so reported to this Convention. A vote was taken of the committee which resulted as follows:

Affirmative: Commissioners Nesbit, Taggart, Henry, Bailey and Hardison.

Negative: Commissioners Merrill and Phillips.

The chairman thereupon declared the resolution carried.

On motion the committee adjourned subject to the call of the Chair.

A meeting of the Committee on Actuarial Bureau was called at 2:10 p. m., December 8, 1915, by Commissioner Young, Chairman.

The Chair stated that it was the desire of the Commissioners to secure the experience of all the fire insurance companies in the United States upon a uniform classification basis.

Mr. C. A. McCotter, speaking for the mutual companies belonging to the National Association, stated that it was the desire of the companies to act in accordance with the Commissioners' wishes; that there had been some hesitation on the part of some of the companies

to act, but that he thought that had been overcome. He said he did not know what the attitude of the mutuals would be with respect to farm property, but thought that if it was the desire of the Commissioners that farm property be included, the companies would probably acquiesce.

Mr. W. E. Malleliou, acting as Secretary of the Actuarial Bureau, asked if the Commissioners would accept the reports of the companies to the Bureau in lieu of reports to the Commissioners direct.

Commissioner Young stated that many of the Commissioners did not get reports directly under the law, but that the reports were made to the fire marshals rather than to the Commissioners.

The question of the attitude of the State of Illinois with respect to this matter was discussed somewhat, although Superintendent Potts of that State was not present and therefore no statement of his attitude was available.

Commissioner Hardison called attention to the fact that the representatives of the mill mutuals of Massachusetts were present, and asked that they be invited to state their position with respect to this matter to the committee.

Mr. E. V. French, representing the mill mutuals, thereupon addressed the committee at considerable length, stating that the mill mutuals were in sympathy with any plan which would help to reduce the fire loss, but that there were some details of the classification proposed which did not seem to fit their business. He further stated that the mill mutuals had but one class of risks for the majority of their business, namely manufacturing property under complete sprinkler protection. He further stated that the mill mutuals had been reluctant to enter into the plan proposed, as they felt that it did not mean anything at all in their case, although he was sure there was a desire on the part of the mutuals to co-operate as far as they can.

Mr. William B. McBee, representing the mill mutuals, endorsed the statements made by Mr. French. He further stated that the mill mutuals did not want to dodge any reasonable requirement, but they thought the proposed plan was of doubtful benefit on account of the peculiar nature of their business.

In response to a question from Chairman Young, Mr. McBee stated that the companies would be glad to look into the matter further, and see if some agreement could not be reached.

At this point Chairman Young called Commissioner Hardison to the chair.

Mr. Button also spoke on behalf of the mill mutuals and reaffirmed the position taken by his colleagues.

Mr. McCotter assured the Commissioners of willingness of the dwelling house mutuals to comply with their requirements.

Commissioner Young called upon Mr. Malleliou to explain the working of the Actuarial Bureau.

Mr. Malleliou thereupon addressed the committee at some length, explaining the aims and methods of the Bureau and extended an invitation to the Commissioners to visit the Bureau. He said that in order to make the plan a success the co-operation of all the mutuals was necessary.

Commissioner Young expressed the thanks of the committee to Mr. Malleliou and representatives of the mutual companies for appearing before it.

On motion meeting adjourned.

A meeting of the Committee on Examinations was called by Commissioner Young, Chairman.

Chairman Young asked President Mansfield to preside.

Commissioner Young moved that the committee direct the chairman to prepare an issue of all resolutions adopted on the subject of examinations and also a statement of the manner in which the examinations are held and conducted, with a request for the co-operation of every department.

Motion duly seconded and adopted.

The methods and practices of Commissioners and Examiners of various States were discussed at some length, after which the committee, on motion, adjourned.

A meeting of the Executive Committee was called, Commissioner Button, Chairman, presiding.

Mr. Button extended to the committee an invitation to hold its next annual convention in the city of Richmond, Va.

Commissioner Mansfield: I desire to state that invitations have also been received from Buffalo, Philadelphia, St. Louis and Chicago.

Commissioner Merrill: I desire to present to the Convention an invitation to hold its next annual convention at Bretton Woods, New Hampshire.

Commissioner Patterson: I desire to extend an invitation to the Convention to meet at Dallas.

Commissioner Hardison moved that the matter of selecting a place of meeting for the next convention be laid upon the table. This motion was lost.

The Secretary thereupon called the roll, and each Commissioner was requested to name his choice. The result was as follows:

For Richmond, Virginia: Messrs. Button, Phillips, English, Young, Merrill, Phelps, Mansfield and McMaster.

For St. Louis, Missouri: Mr. Hardison.

The Chair thereupon announced that the selection of Richmond, Virginia, was the place of the next Convention.

On motion, the meeting adjourned.

Adjourned Meeting of National Convention of Insurance Commissioners.

Planters Hotel, St. Louis, Mo.,
April 17, 1916.

At ten o'clock a. m. the National Convention of Insurance Commissioners was called to order by President Burton Mansfield.

A call of the roll of States showed the following representatives to be present :

- Alabama—C. B. Smith, Commissioner.
- Colorado—E. R. Harper, Commissioner.
- Connecticut—Burton Mansfield, Commissioner.
- District of Columbia—C. F. Nesbit, Superintendent.
- Illinois—Rufus M. Potts, Superintendent; C. H. Schammel, Attorney; James Fairlie, Actuary.
- Indiana—Harry L. Arnold, Actuary.
- Iowa—Emory H. English, Insurance Commissioner.
- Kansas—Carey J. Wilson, Superintendent of Insurance.
- Kentucky—C. B. Bullock, Actuary.
- Maryland—E. J. Joyce, Jr., Chief Examiner.
- Massachusetts—F. H. Hardison, Commissioner.
- Michigan—J. T. Winship, Commissioner.
- Minnesota—S. D. Works, Commissioner; Chas. W. Sodestrom, Rating Clerk.
- Mississippi—T. M. Henry, Commissioner.
- Missouri—W. K. Chorn, Superintendent.
- New Hampshire—Robert J. Merrill, Commissioner.
- New York—Jesse S. Phillips, Superintendent of Insurance; Henry D. Appleton, Deputy Superintendent.
- North Carolina—James R. Young, Commissioner.
- Ohio—Frank Taggart, Superintendent.
- Oklahoma—A. L. Welch, Commissioner; T. J. McComb, Actuary.
- Oregon—Harvey Wells, Commissioner.
- Pennsylvania—Samuel W. McCulloch, Commissioner.
- Rhode Island—S. E. Allison, Actuary.
- South Dakota—Harry J. O'Brien, Commissioner.
- South Carolina—F. H. McMaster, Commissioner.
- Tennessee—W. F. Dunbar, Commissioner.
- Utah—John James, Commissioner.
- Virginia—Joseph Button, Commissioner.
- West Virginia—J. S. Darst, Commissioner.
- Wisconsin—M. J. Cleary, Commissioner; G. H. Hipp, Actuary.
- Wyoming—R. B. Forsyth, Commissioner.

The roll of committees was called and the chairman or ranking member of such committees as were to meet announced the hour and place of meeting.

The Committee on Valuation of Securities submitted the following report:

Report of Committee on Valuation of Securities.

Albany, N. Y., April 17, 1916.

The Committee on Valuation of Securities submits the following report for the year 1915-16:

In making this report, attention is called to the preliminary report of the committee made at the adjourned meeting of the Commissioners, held in New York City on December 7, 1915, carried at pages 2-6 of the proceedings of the December meeting.

The valuation pamphlet is dated January 20, 1916; but, as a matter of fact, copies were mailed to all departments and companies on January 18, 1916.

The receipts and disbursements of the committee for this year's pamphlet are as follows:

Receipts.

1915		
July 15	Carey J. Wilson, Ins. Com., Kansas...	\$50 00
Oct. 11	William Keating, State Auditor, Helena, Montana	150 00
Oct. 20	Burton Mansfield, Ins. Com., Hart- ford, Conn.	500 00
Oct. 29	F. H. McMaster, Ins. Com., Columbia, S. C.	100 00
Nov. 1	John T. Winship, Ins. Com., Lansing, Mich.	150 00
Nov. 4	Walter F. Scott, Ins. Com., Montpelier, Vermont	150 00
Nov. 4	Wm. F. Dunbar, Ins. Com., Nashville Tennessee	100 00
Nov. 5	M. J. Cleary, Ins. Com., Madison, Wis.	300 00
Nov. 5	Chas. C. Gray, Ins. Com., Providence, R. I.	200 00
Nov. 5	Frank Taggart, Supt. Ins., Columbus, Ohio	200 00
Nov. 8	Rufus M. Potts, Ins. Com., Spring- field, Illinois	350 00
Nov. 10	J. R. Young, Ins. Com., Raleigh, N. C.	100 00
Nov. 11	Joseph Button, Ins. Com., Richmond, Virginia	250 00
Nov. 22	H. O. Fishback, Ins. Com., Olympia, Washington	50 00
Nov. 27	M. C. Clay, Ins. Com., Frankfort, Ky..	100 00
Nov. 29	E. J. Carter, Ins. Com., Augusta, Maine	100 00
Dec. 1	Geo. M. LaMonte, Com. Bkg. and Ins., Trenton, N. J.	50 00
Dec. 7	E. R. Harper, Ins. Com., Denver, Col.	100 00
Dec. 7	E. H. English, Ins. Com., Des Moines, Iowa	100 00
		\$3,100 00

Received Since Last Report

1915			
Dec. 4	J. S. Darst, Ins. Com., Charlestown, W. Va.	\$100 00	
Dec. 10	Chas. Johnson, Ins. Com., Harrisburg, Penn.	500 00	
Dec. 17	Walter K. Chorn, Ins. Com., Jefferson City, Mo.	150 00	
Dec. 21	M. Harry O'Brien, Ins. Com., Pierre, S. D.	15 00	
Dec. 22	Robt. J. Merrill, Ins. Com., Concord, N. H.	25 00	
Jan. 17	J. E. Phelps, Ins. Com., San Francisco, Cal.	250 00	
Feb. 1	Harvey Wells, Ins. Com., Salem, Ore...	50 00	
Feb. 23	John S. Patterson, Ins. Com., Austin, Texas	50 00	
			1,140 00
F. H. Hardison, Boston, Mass.			1,000 00
Total contributions of other State departments		\$5,240 00	
Received from individuals from sale of book..		3 00	
Total contributions		\$5,243 00	
New York balance to close disbursement acct..		2,438 82	
			\$7,681 82

Disbursements.

R. F. Shelly	\$17 10
J. B. Lyon Company	2,243 53
American Express Company	221 98
Geo. G. Champlin, proof reading.....	26 40
E. C. Maycrink, proof reading, etc.....	40 95
Marvyn Scudder, postage.....	131 86
Marvyn Scudder, first payment on contract of valuation, etc.	3,000 00
Marvyn Scudder, second payment due on contract	2,000 00
	\$7,681 82

Respectfully submitted,

JESSE S. PHILLIPS,

Chairman;

FRANK H. HARDISON,

SAML. W. McCULLOCH,

JAMES R. YOUNG,

J. S. DARST,

EMORY H. ENGLISH,

T. M. HENRY,

FRANK TAGGART,

CHAS. C. GRAY, Per S. E. A.

RUFUS M. POTTS.

The report was read and the motion was adopted.

Superintendent Potts, of Illinois, stated that as chairman of the Committee on Social Insurance he had prepared a report which he would submit to the whole committee at a session to be held in the afternoon.

Announcement was made of the 20th annual meeting of the National Fire Protection Association to be held in Chicago on May 9th, 10th and 11th.

President Mansfield appointed Hon. Rufus M. Potts, Superintendent of Insurance of Illinois, as the representative of the National Convention of Insurance Commissioners to attend the meeting of the National Fire Protection Association.

There being no further business, the Convention took a recess, resolving itself into a meeting of the Committee on Laws and Legislation, Chairman Jesse S. Phillips, of New York, in the chair.

Memorandum of Committee on Laws and Legislation.

Chairman Phillips announced that the committee would have under consideration the matter of Contingent Commissions.

Committee on Laws and Legislation, St. Louis, April 15, 1916.

CONTINGENT COMMISSIONS.

Remarks of President H. A. Smith of the National Fire Insurance Company of Hartford.

In availing myself of the opportunity you have been good enough to afford me to appear before your committee and state my views, I wish first of all to make it clear that I do so individually and as the representative of my company and not of any association of companies. I come before you with much confidence that my opinions on this subject will carry weight with you, not only because of my widespread and long experience with one of the foremost fire insurance companies (as local agent, special agent, and executive officer), but also—and perhaps more particularly—because, having been one of the earliest and most enthusiastic advocates of the general adoption of the contingent plan of compensation, I have become thoroughly convinced, as the result of some years of careful study of the proposition in practice and theory (quite against my preconceived ideas) that the scheme, attractive as it is theoretically, is utterly impractical and fundamentally unsound. I regret to say this; but having been unable adequately to support the theory in favor of which I started out, I have been converted against my will and forced to take the other side.

It has been the desire of the insurance commissioners, the companies, and the insuring public that expenses should be reduced rather than increased, and the companies have earnestly labored in this direction, but without appreciable success, for a variety of reasons, amongst which may be mentioned the fact that while the trend of rates is steadily downward, the cost of everything save insurance is mounting alarmingly—labor, rents, materials, transportation, taxes imposed by States, municipalities and the Federal government upon our premiums, preparation of reports to meet the requirements of the various States, the labor incidental to the classification work of the Actuarial Bureau, the closer inspection necessitated by the ever-narrowing margin of profit caused by decreasing rates and increasing expenses, the cost of engineering and fire prevention service given to municipalities through organizations which the companies support and to property owners by the companies individually, etc.

In view of the desire for reduction in expenses it must be assumed that if contingents were to be paid the only basis which you would

countenance would be such a division between the flat commission and the probable contingent to be paid, as in the aggregate would not increase our acquisition expense over what it is now. In fact, I presume you would desire us to decrease our expenses, and we certainly would wish this. But it is not to be believed on general principles that the agents would consent willingly to accept a plan which in all likelihood would result in reducing their income; and the companies, making little or no underwriting profit under existing conditions, certainly could not afford to increase their acquisition cost.

Therefore if contingents were to be paid at all they should be based on State results and not on the experience of a single agency; the flat and contingent combined should not exceed the present acquisition cost; the flat should be low, and the difference between the flat and the present cost should be divided proportionately amongst those agencies in a State showing a profit. But this is simply theoretical and ideal, as the agents would not accept a low flat commission—many of them indeed could not afford it; and the very few who are now in favor of the contingent plan desire it only because they hope in it to realize an increase in compensation, contending for a flat which would equal the present average acquisition cost of around 18 or 19 per cent., with whatever contingent may be paid in addition.

[It may be well to state here that the above estimate of average agency acquisition cost represents the commissions received by the local agent; a higher average (something like 22 per cent.) has been quoted by those who have taken their figures from line 5 of page 3 of the Commissioners' Statement blank, but this includes all commissions—overriding, managers', general agents' flat and contingent, etc.]

While the State has always and properly been the smallest unit accepted by underwriters as a basis for averages, either in class or volume, the contingent plan seeks to make the agency the unit, which is absolutely unsound, as it is conceivable that a company might, in a given unit as large as a State, have a loss ratio of over 100 per cent. (to which would have to be added 40 per cent. of expense), and yet, with a single exception, every one of its agents in the State receive a contingent commission—in other words, a division of the profits in a State where no profits for the company existed. It is also a fact easily to be demonstrated from analyses of actual figures of the National and other leading companies, that irrespective of the general loss ratio, 80 to 85 per cent. of the agents would participate in this so-called division of profits on the contingent plan, and 70 to 80 per cent. of the premiums would be subject to such an impost.

Contingents based on the results of an agency as a whole would be fantastic in the inequalities they would produce, the expense and difficulties of operation entailed, and the dissatisfaction which would accrue to all concerned. The broader underwriting experience and judgment of the leading and successful companies would be subordinated, both as to lines and hazards, to those of an inexperienced country agent or to the policies of the small and unsuccessful companies, the averages upon which any permanently successful underwriting rests destroyed, and chaos reign. By such a method, too, an unfavorable result for one company might relieve all the others in the agency from paying any contingent at all, even if none of them had had a single dollar of loss the whole year!

I think most men of broad practical experience in the agency business, whether agents or company officials, hold to much the same opinion as I do, that while contingent commissions are attractive in theory, they are impractical; and that this can be conclu-

sively demonstrated. There remains one argument advanced in their favor, however, which is not so easily demolished and must in all frankness be characterized as merely a matter of opinion; and that is the effect which contingents might have upon the loss ratio. I am prepared to concede that with one company in an agency paying a contingent and the remainder on a flat or graded basis, the one company will receive the best selection as to physical and moral hazard the agent is able to make, and may somewhat improve the quality of its business—though not so easily since the adoption of graded commissions as a general method of compensation; but to make contingents universal would not only be impractical and inequitable, but the theoretical advantage to an individual company would disappear if all companies were on the same basis, since there would then be no other company which could be used as the slop-bucket for any risk about which the agent might be in doubt. Furthermore, such a risk would be written, if a company could be found to accept it, for the agent knows that the law of average is very much in his favor in the case of any single risk of a class; and it must be conceded as fundamental that no method of contingent compensation could possibly be inaugurated which would not give the agent so much more that is certain in the way of flat commission that he could well afford as a gambling proposition to ignore in its favor the possibilities of the sum (much smaller at best) to be anticipated from his share of any profits.

Agents as a rule are conscientious and painstaking in every section of the country; their average of intelligence and honesty is as great as in any other business or profession; broadly speaking, they will not offer their companies risks which they believe are bad morally; they will not knowingly over-insure, and seldom do, but they hold, with many others, that rates should be so adjusted that every risk free of moral taint should be insurable; they are not, and cannot become, experts in the technicalities of construction, processes, and protection, and very properly, except for things they know are fundamentally and patently unsound, leave the physical condition and acceptability of the risks to the expert inspectors of their companies. The latter naturally aim to eliminate or diminish the chances of loss as much as possible, so as a practical proposition it may be stated without fear that events would disprove the assertion, that if contingents were made general the fire waste as a result thereof would not be reduced to any appreciable degree while human nature remains as it is; and any risk or person now able to secure insurance will continue to be able to do so.

It seems obvious to those practical insurance men who have made a thorough study of the question that no system of contingent compensation will ever be accepted by the agents voluntarily which does not certainly give them as much as they are now making, with a chance to make more if they have good luck—which means in the last analysis a very considerable increase of acquisition cost to the companies. You gentlemen do not wish any increase, but on the contrary if possible a decrease, and in this the companies are with you; so contingent commissions on the only basis which you would approve or the companies be willing to experiment with could not be brought about except by legislative enactment; and were this undertaken it is a foregone conclusion that the agents by virtue of their great numbers and influence could and would defeat such a proposition. They contend strongly, as we do, that the matter of their compensation is based on the rights of individual contract between agent and principal and should not be impaired.

In order that you may have before you a pro forma of the plan for contingent compensation which the National Board regards as

standard, I have had copies prepared for distribution, believing that the features which must be considered and provided for in such a method may be of interest. There is a great deal that I would be glad to say in explanation of this pro forma, but I fear it would take too much of your valuable time, and it is unnecessary at this hearing, since the main point I wish to demonstrate is that contingent commissions are not practicable.

I also am distributing analyses made of the actual figures of my own and other companies for various States and groups of States covering the experience of several years, demonstrating that even if we reduce the flat commission from the present average of 18 or 19 per cent. to 12½ per cent., charge but 30 per cent. for expenses (whereas as you all know our expenses average at least 40 per cent.), and after deducting losses but ignoring any increase in unearned premiums allow 12½ per cent. contingent, the present acquisition cost will be increased; and no matter how high the loss ratio may be, 80 to 85 per cent. of the agents will draw down some amount as a contingent.

I shall not take up your time to read these tables to you, and I think they will be clear to you without explanation after I have commented upon certain features in some of them which are striking and typical.

Turn first, please, to the National's experience in North Carolina:

National—North Carolina.

	1912	1913	1914
Premiums	\$59,394.00	\$64,483.00	\$62,318.00
Loss ratio	66.22	52.11	91.23
Actual cost	17.17	17.02	17.46
Contingent	18.30	17.38	17.06
% Agents sharing in contingent	87	87	82
% Prems. sharing in contingent	82	72	70

It will be seen from the above that in a year of no profit (1912—66 per cent. loss ratio) contingent commissions not only would have cost us more than graded (18.30 per cent. as against 17.17 per cent.) but more than they would have cost us in a profitable year (1913—52 per cent. loss ratio); in each year 87 per cent. of the agents drawing a contingent, but in the unprofitable year 82 per cent. of the premiums participating, while in the profitable year but 72 per cent. of the premiums shared!

Further, it will be observed that in 1914, with a loss ratio of over 91 per cent., nearly as many agents participated (82 per cent.) as in 1913 with its 52 per cent. loss ratio, and almost as much of the premium (70 per cent.) as in the 52 per cent. year (72 per cent.); and that even with the 91 per cent. loss ratio, contingent commissions would have cost within four mills per dollar as much as graded did.

The above analysis, which is typical, shows conclusively that under the contingent form of compensation an extremely high and unprofitable loss ratio may be attended by a much greater acquisition cost than a profitable year; in other words, that under this form the loss ratio neither controls nor appreciably affects the acquisition cost.

It also demonstrates that the most liberal basis which has been discussed or it is likely underwriters would be prepared even with reluctance to accept averages over the three-year period, say, one-third of one per cent. (.35) more than graded actually cost. It must be remembered, too, that the difference is really greater, for

in the contingent calculation increase in liability, deficits, contingents paid on a previous year, and about 10 per cent. of actual expense have been ignored.

This .35, however, is more than one-fourth of the microscopic underwriting profit shown for all the companies in the United States (1.37 in 1913) while over the period 1904 to 1913 inclusive (see p. 14 President Kremer's National Board report) there was an underwriting loss of .62. Certainly the companies cannot afford to increase their expenses by even this much. It is well known that the Insurance Commissioners in the interests of the public desire a reduction and frown upon increases in expense, especially if unnecessary; and yet the attitude of agents generally indicates clearly that nothing approximating 12½ per cent. flat plus 12½ per cent. contingent would be acceptable. If anything higher were to be paid, it is obvious rates must be increased to permit the companies to break even, let alone make a profit.

The public also would be likely to question the economy or wisdom of a management which inconsistently pays out contingent commissions (that is, a share of the profits) in any State which in any given year shows an actual loss; since the State is generally accepted as the smallest unit geographically upon which to depend for analysis in underwriting, for its classified experience, taxes, etc.

Besides, when losses are high and it is obvious rates are inadequate, it would be difficult to defend an increase in the latter if our expenses had been increased so unjustifiably.

For another example, refer to the National's experience in New Hampshire in 1914:

Loss ratio	76%
Actual cost	16.75
Contingent basis	18.65
Agencies sharing	88%
Premiums sharing	86%

Losses and expenses about 116 per cent., and yet 88 per cent. of the agents and 86 per cent., of the premiums participate in a profit which does not exist; 31 agents in the State, all but 4 getting a contingent, with a 76 per cent. loss ratio for the State.

Take Texas for the National:

Loss ratio in 1912	97.47%
Loss ratio in 1914	82%

In the 97 per cent. year 86 per cent. of the agents get a contingent and in the 82 per cent. year only 80 per cent. of them do.

Note particularly that more participate in the worse year than in the better.

And for the Home:

Loss ratio in 1912	114%
Loss ratio in 1914	59%
Agents getting contingent in 1912	79%
Agents getting contingent in 1914	81%

To show that the above averages are typical, the combined figures of eight large companies in six States for three years have been analyzed.

The premiums were	\$17,810,000
Loss ratio	54.46%
Graded cost	17.37
Arbitrary contingent	17.72

Per cent. of agents sharing	85
Per cent. of premiums sharing	80
59 per cent. of agencies average no losses.	
81 per cent. of agencies average 50 per cent. or under.	

I think the companies might be willing to try this plan experimentally in a single State; but nowhere can agents be found who are willing to have their flat commission (that is to say, their fixed income) reduced and to gamble with their livelihood.

I thank you for this opportunity to lay my views before you, and for your courteous attention.

H. A. SMITH.

EXHIBITS ATTACHED.

CONTINGENT COMMISSIONS.

From the National Board's Committee Report.

The committee's understanding of its instructions has been that it should bring in a pro forma in keeping with the other works of the National Board which might be accepted as a standard; and they have not attempted to temporize or compromise with questions of expediency, believing what is desired is a form which is as nearly correct and equitable in principle and method as it can be made—indeed the National Board, having become practically a Bureau of Standards, cannot afford to place the stamp of its approval on anything known to be faulty.

We accordingly recommend that where a flat commission is paid and it is desired to make a further allowance if a profit has been earned, such additional compensation be granted when based on experience after the following method of calculation, for convenience called contingent commissions:

Income.

1. The net premiums (gross premiums less return premiums and all reinsurances) of the current contingent year or period.
2. The unearned premium reserve on the net premiums as above from the preceding year, if any, under this agreement, at 50% of the net premiums of the preceding year.
3. The net outstanding losses of the preceding year, if any, under this agreement.

Outgo.

1. The commissions allowed as shown by accounts current furnished by the agent (when approved by the company) and the previous year's contingent commission (if any):
2. The expenses of the agency, viz.:
 - A. Texas (Federal, State and municipal), license fees, or other items of expense imposed by law;
 - B. Patrol and Salvage Corps assessments;
 - C. Other expenses—such as postage, stamping office, boards, supplies, etc., at %.
3. Home office and supervisory expenses at %.
4. The net losses paid during the current contingent year or period.
5. The net losses outstanding at the end of the current contingent year or period.
6. The unearned premium reserve for the current contingent year or period on business under this contract; i. e., 50% of the net premiums.

7. Deficit, if any, from previous year's contingent account; deficit of any individual year to be carried forward one year only.

On the excess of income over outgo, ascertained in accordance with the above mentioned plan, a contingent commission of % is payable, subject to the following conditions:

1. Any contingent commission which may be earned by any agent in accordance with the above method of computation shall only become payable when all balances for the fiscal year of the computation have been paid to the company in full.

2. In case of termination of any agency for any cause, the final accounting under the contingent agreement will not accrue until the policy bearing the latest date of expiration issued by the agent shall have expired; all losses and expenses thereunder and of the agency duly determined and charged against the account; all property belonging to the company surrendered to it upon demand; and all indebtedness paid punctually within the period of credit granted to agent by the company.

In respect of Outgo, 2 A and B, it is expected that the companies or the organization having jurisdiction will fix the percentage to be charged by each company under each item, either for each State as a whole or for such divisions of it as may be necessary on account of varying imposts.

In respect of Outgo 2 C and 3 it is suggested that the companies should agree upon an average percentage which would fairly cover the items involved, so that uniformity of treatment may be secured.

Contingent commissions are based on the theory that if an agent can look forward to sharing in the profits, he will exercise better judgment in selection and more care in inspections, restricting over-insurance, avoiding moral hazard, etc.; having then a direct personal and financial interest in producing a profit for his company as well as in securing the risk for himself.

To arrive at profit, of course, any method which did not deduct from the total premiums all items of outgo for losses, taxes, commissions, contingents, supervision, management, increase in statutory reserve, etc., would be a corresponding deviation from the absolutely correct method; for were any such items of expense, outgo, or liability ignored, a profit commission would be paid to the agent on a portion of the premiums which either was a loss to the company, or at any rate had not become and might never become a profit.

Because of these considerations it will be observed that all items of loss and expense outgo and of liabilities have been included, so that a real and not a fictitious profit will result. Were any other method to be followed, the unfavorable effect of heavy and increasing tax expenses would not be apparent to the agent.

Attention is called to the fact, however, that while it is obvious that we cannot ascertain if there is a profit of which a contingent share may be allotted to the agent, unless all items of outgo and liability have been deducted from the net receipts, nevertheless there are items for which we have not made provision because of the great difficulty which would be encountered in determining and apportioning them satisfactorily; and because of the friction which might consequently ensue. We have therefore provided herein only for the direct items of expense and liability which are easily identified and demonstrated, omitting those indirect or general charges which are connected with the rent or maintenance of head office quarters, taxes thereon, general head office supervision, care of investments, advertising not required by law, etc.

The calculation has been put on a net basis since that is the only one which truly indicates a company's real experience and profit in

an agency. It is also more satisfactory to an agent anxious to produce a profit, as he realizes that more often than not, surplus lines carried by his company for his accommodation and by it reinsured in order to help him are likely to unbalance his results and jeopardize his contingent, since the general lot of reinsured business is not to fare as well as that retained net. Indeed the agents at their recent national convention adopted a resolution recommending net lines, and favoring the discouragement of large policies necessitating reinsurance. Furthermore, a company cannot well afford to pay contingent on premiums reinsured, since it would not receive any from the reinsuring company unless it were a treaty company, and with no certainty from the latter.

The plan leaves expenses imposed by law to be charged exactly as they are, both because they vary widely in different States and localities and also in order that the agent may have a livelier interest in helping to keep them at a minimum since they affect his income.

The other items, strictly speaking, should also be charged at their exact amount, but the committee, realizing that much confusion might result owing to the varying methods of companies in apportioning their expenses, have thought it better to recommend fixed percentages for 2 C and 3. With this in mind it is suggested that if for any reason as time goes on expenses under these items (or others not provided for) are increased, the plan in this respect might need to be revised to make proper provision for such increases.

While it is obvious that with steadily increasing expenses due to heavier taxes, licenses, fees, and other items beyond the control of the companies, constantly decreasing rates, more exacting and expensive supervision, and an ever-narrowing margin of profit which necessitates greater expense on the part of companies in engineering service, inspection, etc., to insure even the present attenuated profits, the business will not bear any increase in commission cost unless there is a decrease in the loss outgo, this committee do not understand that they are expected to recommend the rates of flat and contingent commission that should be used in putting the above plan into practical operation; and consequently do not do so.

They have, however, individually considered such matters, and submit the following as their individual views, based on their discussions and collaborations:

1st. Individually we think the flat commission should not exceed $12\frac{1}{2}\%$, since a larger flat commission would, in the opinion of the members of the committee, defeat the object of the contingent plan of compensating agents.

2nd. The members of the committee have looked into the experience in certain States, based on the plan herewith reported assuming $12\frac{1}{2}\%$ for flat commissions, and their investigations indicate that a contingent commission, exceeding $11\frac{1}{2}\%$ to $12\frac{1}{2}\%$ could not be paid without increasing the commission cost beyond that of the present graded plan.

While we realize that a conflagration or severe losses may be expected at any time in any place, and that a company cannot well share profit if there is none, and that no unit smaller than a State can be safely accepted as a basis for a general determination of rates, profit, or expense, we do not deem it expedient or practicable to recommend any rule to cover such a contingency; though it would be desirable in principle to safeguard a company against paying out more for commissions in a State with a loss ratio of 100% or over than it might in one with losses of but 65%.

NORTH CAROLINA—NATIONAL

STATE NO. 1—COMPANY NO. 1.

<u>1912.</u>					
<u>Agencies.</u>		<u>Premiums.</u>	<u>Losses.</u>	<u>*Arbitrary Method Av. Com. Cost.</u>	<u>Actual Cost.</u>
28	No losses	\$10,699	0	21.25	
17	0-20%	28,340	\$2,376	20.20	
51	6 20-40%	6,158	1,944	17.30	
	0 40-50%	0	0	0	
	1 50-60%	926	523	14.19	
	2 60-70%	2,838	1,515	13.15	
	8 Over 79	10,983	32,967	12.50	
62		\$50,894	\$39,325	18.30	17.17
Loss ratio, 66.21					
<u>1913.</u>					
39	No losses	\$15,947	0	21.25	
11	0-20%	14,614	\$1,191	20.23	
55	5 20-40%	11,745	3,816	17.19	
	0 40-50%	0	0	0	
	2 50-60%	2,688	1,429	14.60	
	1 60-70%	1,391	879	13.36	
	9 Over 70	18,098	26,285	12.50	
67		\$64,483	\$33,600	17.38	17.02
Loss ratio, 52.11.					
<u>1914.</u>					
36	No losses	\$14,221	0	21.25	
13	0-20%	15,786	\$1,059	20.41	
52	3 20-40%	3,633	1,098	17.47	
	0 50-50%	0	0	0	
	1 50-60%	8,494	4,685	14.36	
	1 60-70%	1,057	679	13.22	
	12 Over 70%	19,127	49,364	12.50	
66		\$62,318	\$56,885	17.06	17.46
Loss ratio, 91.28.					
<u>Three Years</u>					
103	No losses	\$40,967	0	21.25	
41	0-20%	58,740	\$4,626	20.27	
158	14 20-40%	21,536	6,858	17.27	
	0 40-50%	0	0	0	
	4 50-60%	12,108	6,637	14.40	
	4 60-70%	4,786	3,072	13.23	
	29 Over 70%	48,158	108,617	12.50	
195		\$186,195	\$129,810	17.50	17.21
Loss ratio, 69.72.					

COMPARATIVE.

	Loss.	*Com. and Cont'g.	Actual % Cost.
1912	66.21	18.30	17.17
1913	52.11	17.38	17.02
1914	91.28	17.06	17.46
Three years	69.72	17.56	17.21

*12½% flat, 30% Exp., 12½% contingent.

STATE NO. 1—COMPANY NO. 1.

	1912.	1913.	1914.	Average.
Premiums	\$59,394	\$64,483	\$62,318	\$186,195
Loss ratio	66.21	52.11	91.28	69.72
Actual cost	17.17	17.02	17.46	17.21
Contingent basis	18.30	17.38	17.06	17.56
% of agents sharing.	87.	87.	82.	85.
% of prems. sharing..	82.	72.	70.	74.

TEXAS—NATIONAL.STATE NO. 2—COMPANY NO. 1.

		<u>1912.</u>		*Arbitrary Method Av. Com. Cost.	Actual Cost.
<u>Agencies.</u>		<u>Premiums.</u>	<u>Losses.</u>		
185	No losses	\$49,515	0	21.25	
10	0-20%	25,186	\$3,293	20.08	
7	20-40%	7,411	2,194	17.55	
233	1 40-50%	1,172	512	15.79	
5	50-60%	37,562	19,640	14.71	
0	60-70%	0	0	0	
37	Over 70%	91,863	191,442	12.50	
275		\$222,700	\$217,061	16.20	15.

Loss ratio, 97.47.

233 out of 275 agents would have received more than 15%, and the cost to the company would have been 16.20, or \$2,676 in excess of 15%.

		<u>1913.</u>		*Arbitrary Method Av. Com. Cost.	Actual Cost.
<u>Agencies.</u>		<u>Premiums.</u>	<u>Losses.</u>		
191	No losses	\$58,487	0	21.25	
33	0-20%	30,789	\$1,218	20.76	
6	20-40%	34,234	9,054	17.94	
235	5 40-50%	47,456	20,965	15.73	
3	50-60%	1,865	974	14.72	
4	60-70%	5,000	3,337	12.91	
27	Over 70%	37,335	52,678	12.50	
269		\$215,166	\$88,226	17.67	15.

Loss ratio, 41.00.

235 out of 269 agents would have received more than 15%, and the cost to the company would have been 17.67, or \$5,738 in excess of 15%.

1914.

	<u>Agencies.</u>	<u>Premiums.</u>	<u>Losses.</u>	<u>*Arbitrary Method Av. Com. Cost.</u>	<u>Actual Cost.</u>
	173 No losses	\$58,068	0	21.25	
	26 0-20%	27,918	\$1,496	20.58	
	6 20-40%	27,156	7,855	17.63	
204	3 40-50%	21,184	9,556	15.61	
	3 50-60%	3,177	1,829	14.06	
	2 60-70%	3,697	2,435	13.02	
	53 Over 70%	89,339	161,944	12.50	
	266	\$225,529	\$185,115	16.50	15.

Loss ratio, 82.08.

206 out of 266 agents would have received more than 15%, and the cost to the company would have been 16.50, or \$3,382 in excess of 15%.

Three Years.

	549 No losses	\$161,069	0	21.25	
	99 0-20%	93,893	\$6,006	20.45	
	19 20-40%	68,801	19,108	17.78	
678	9 40-50%	66,813	31,083	15.00	
	11 50-60%	42,604	22,443	14.66	
	6 60-70%	8,697	5,772	12.95	
	117 Over 70%	218,537	406,065	12.50	
	810	\$663,404	\$490,422	16.78	15.

Loss ratio, 73.92.

676 out of 810 agents would have received more than 15%, and the cost to the company would have been 16.78, or \$11,796 in excess of 15%.

COMPARATIVE.

	<u>Loss.</u>	<u>*Com. and Cont'g.</u>	<u>Actual Cost.</u>
1912	97.47	16.20	15.00
1913	41.00	17.67	15.00
1914	82.08	16.50	15.00
Three years	73.92	16.78	15.00

*12½% flat, 30% Exp., 12½% contingent.

	<u>1912.</u>	<u>1913.</u>	<u>1914.</u>	<u>Average.</u>
Premiums	\$222,709	\$215,166	\$225,529	\$663,404
Loss ratio	97.47	41.	82.08	73.92
Actual cost	15.	15.	15.	15.
Contingent basis	16.20	17.67	16.50	16.78
% of agents sharing..	86.	90.	80.	85.
% of prems. sharing..	59.	83.	60.	67.

TEXAS HOME.
STATE NO. 2—COMPANY NO. 2.

1912.

<u>Agencies</u>		<u>Premiums.</u>	<u>Losses.</u>	<u>*Arbitrary Method Av. Com. Cost.</u>	<u>Actual Cost.</u>
197	No losses	\$111,703	0	21.25	
75	0-20 %	137,506	\$7,102	20.59	
12	20-40 %	63,262	19,520	17.39	
6	40-50 %	32,593	14,024	15.86	
12	50-60 %	37,354	20,615	14.35	
2	60-70 %	7,363	4,970	12.88	
80	Over 70 %	180,059	588,738	12.50	
384		\$569,840	\$654,959	17.03	15.
		Loss ratio, 114.90.			

1913.

198	No losses	\$166,257	0	21.25	
92	0-20 %	178,310	\$10,420	21.07	
13	20-40 %	99,684	33,114	17.09	
8	40-50 %	13,403	6,088	15.57	
6	50-60 %	9,997	5,517	14.36	
7	60-70 %	8,582	5,876	12.69	
66	Over 70 %	132,811	229,130	12.50	
385		\$609,044	\$290,185	18.09	15.
		Loss ratio, 47.60.			

1914.

207	No losses	\$120,399	0	21.25	
74	0-20 %	192,322	\$14,754	20.29	
22	20-40 %	90,020	23,396	18.00	
9	40-50 %	20,924	9,857	15.37	
6	50-60 %	33,690	18,247	14.47	
8	60-70 %	9,902	6,704	12.78	
77	Over 70 %	163,213	301,439	12.50	
408		\$630,470	\$374,397	17.52	15.
		Loss ratio, 59.30.			

Three Years.

597	No losses	\$398,359	0	21.25	
241	0-20 %	508,138	\$32,276	20.37	
47	20-40 %	252,966	70,090	17.49	
23	40-50 %	66,920	29,969	15.68	
24	50-60 %	81,041	44,379	14.41	
17	60-70 %	25,847	17,550	12.80	
213	Over 70 %	476,083	1,119,347	12.50	
1162		\$1,809,354	\$1,319,551	17.56	15.
		Loss ratio, 72.94.			

COMPARATIVE.

	<u>Loss.</u>	<u>*Com. and Cont'g.</u>	<u>Actual Cost.</u>
1912	114.90	17.03	15.00
1913	47.60	18.09	15.00
1914	59.30	17.52	15.00
Three years	72.94	17.56	15.00

*12½ % flat, 30 % Exp., 12½ % contingent.

GROUP SIX STATES.

		<u>1904.</u>		<u>*Arbitrary Method</u>	<u>Actual</u>
<u>Agencies</u>		<u>Premiums.</u>	<u>Losses.</u>	<u>Av. Com. Cost.</u>	<u>Cost.</u>
2251	No losses	\$1,314,000	0	21.25	
545	0-10%	1,170,000	\$41,000	20.81	
211	10-25%	644,000	112,000	19.08	
208	25-50%	986,000	357,000	16.72	
171	50-75%	525,000	322,000	13.53	
594	Over 75%	1,022,000	2,044,000	12.50	
3980		\$5,661,000	\$2,876,000	17.83	17.32
		Loss ratio, 50.80.			
		<u>1905.</u>			
2613	No losses	\$1,138,000	0	21.25	
637	0-10%	1,228,000	\$43,000	20.81	
193	10-25%	723,000	125,000	19.10	
222	25-50%	822,000	297,000	16.73	
150	50-75%	606,000	378,000	13.45	
655	Over 75%	1,064,000	2,053,000	12.50	
4470		\$5,586,000	\$2,896,000	17.70	17.17
		Loss ratio, 51.84.			
		<u>1906.</u>			
2901	No losses	\$1,688,000	0	21.25	
604	0-10%	1,071,000	\$39,000	20.79	
262	10-25%	845,000	147,000	19.08	
243	25-50%	953,000	348,000	16.69	
156	50-75%	516,000	318,000	13.54	
793	Over 75%	1,490,000	3,076,000	12.50	
4959		\$6,563,000	\$3,928,000	17.64	17.62
		Loss ratio, 59.85.			
		<u>Three Years.</u>			
7765	No losses	\$4,140,000	0	21.25	
1786	0-10%	3,469,000	\$123,000	20.81	
666	10-25%	2,217,000	384,000	19.08	
673	25-50%	2,761,000	1,002,000	16.71	
477	50-75%	1,647,000	1,018,000	13.52	
2042	Over 75%	3,576,000	7,173,000	12.50	
13409		\$17,810,000	\$9,700,000	17.72	17.37
		Loss ratio, 54.46.			

COMPARATIVE.

	<u>Losses.</u>	<u>*Com. and Cont'g.</u>	<u>Actual Cost.</u>
1904	50.80	17.83	17.32
1905	51.84	17.70	17.17
1906	59.85	17.64	17.62
Three years	54.46	17.72	17.37

*12½% flat, 30% Exp., 12½% contingent.

	1904.	1905.	1906.	Average.
Premiums	\$5,661,000	\$5,586,000	\$6,563,000	\$17,810,000
Loss ratio	50.80	51.84	59.85	54.46
Actual cost	17.32	17.17	17.62	17.37
Contingent basis.....	17.83	17.70	17.64	17.72
% of agents sharing..	85.	85.	84.	85.
% of prems. sharing..	82.	81.	77.	80.

NATIONAL.

NEW HAMPSHIRE—YEAR 1914.

<u>Agencies.</u>		<u>Premiums.</u>	<u>Losses.</u>	<u>*Arbitrary Method</u> <u>Av. Com. Cost.</u>	<u>Actual</u> <u>Cost.</u>
13	No losses	\$6,357 61	0	21.25	
12	0-20%	19,889.85	\$1,620.69	20.23	
2	20-40%	8,141.50	2,682.88	17.13	
0	40-50%	0	0	0	
0	50-60%	0	0	0	
0	60-70%	0	0	0	
4	Over 70%	5,754.32	26,602.99	12.50	
31		\$40,143.28	\$30,906.56	18.65	16.75

Loss ratio for year, 76.98%

27 out of 31 agents would have received more than 16.75%, and the cost to the company would have been 18.65%, or \$765.00 in excess of 16.75%.

1914.

Premiums	\$40,143.28
Loss ratio	76.98
Actual cost	16.75
Contingent basis	18.65
% of agents sharing.....	88.
% of premiums sharing.....	86.

Mr. C. S. Pellet, of Chicago, was heard on behalf of the agents. Summarizing, he asked that the matter be left alone without legislative interference.

Mr. Charles F. Hildreth, President of the National Association of Fire Insurance Agents, was then heard. Mr. Hildreth read the following address:

Address By Mr. Hildreth.

In responding to the invitation of my friend, Colonel Young, Commissioner of Insurance of North Carolina, to attend this meeting and present my views on contingent commissions, I want to read into the record the paragraphs on "Service and Compensation," which appeared in my annual report as President of the National Association of Insurance Agents at its Indianapolis meeting last October, and which are as follows:

"Service and Compensation.

"It has long been growing more and more evident that service is in the future to be the keynote of our business. In the earlier days when simpler business and mechanical conditions existed, little was required at the hands of the agent but the mere securing of a carefully selected business, and the company was well content to pay the prevailing rate of commission for this service. With the

growing complexity of affairs the assured has come to need technical and expert advice on many phases of the fire insurance business, and we must, if we are to hold our own against the adverse conditions of foreign and trust ownership and brokerage competition, fit ourselves to give such intelligent and capable service as will meet these conditions and place us as nearly as possible upon an even footing with our outside competitors.

"While it is true that the company directly pays the commission, it is just as true that the property owner pays the premium on which the commission is based, and we owe a duty alike to the property owner and the company to render the best service possible in exchange for the compensation received. In fact, we owe this duty to ourselves as the only possible means by which we can hold our own.

"In a nut shell, it may be said that the time has come when we must be more than premium getters or we will not even be premium getters.

"The question of amount and form of agents' compensation is one that may properly be considered in this connection.

"It must be conceded that in the arbitrary percentage plan, be it flat or graded, there has been but little incentive for the average agent to do more than 'pull down' his commission with but little regard to the company's profit on the business done, or the public's interest in the reduction of the fire waste.

"Favors Contingent Commission.

"One of the most notable tendencies of the year is the growth of the contingent commission sentiment among agents, managers and insurance commissioners. The payment of a moderate initial commission and a further commission payable at the end of the year, and contingent upon the profits of the business, would make every reputable agent a partner in the business to an extent heretofore unknown. There are some difficulties to be overcome in the adoption of such a system, but I have become convinced that the advantages far outweigh the disadvantages. Among the advantages in which all concerned, companies, agents and public, would share would be that every real agent would become a fire prevention enthusiast, with the immediate interest of his own pocket-book enlisted in the campaign against fire waste.

"As is well known, this association has never dealt with the subject of compensation except in the most general way, but I feel that it would be no violation of precedent if we should commit ourselves to a form of compensation while standing uncommitted as to the rate to be fixed; in other words, we may properly enough commit ourselves to a principle rather than to a figure.

"It is a subject well worthy the consideration of this meeting."

From reading the above it will be seen that I definitely committed myself as a convert to the theory, at least, of contingent commissions. If I may use a distinctly Methodist term, I think I may properly enough say that I have become somewhat of a backslider as I have given further consideration to this subject.

I presume I ought to say at this juncture that while I have very recently retired from a two years' presidency of the National Association, I am appearing here today purely in my personal capacity as a local fire insurance agent at Freeport, Illinois, and with no authority whatever to speak on behalf of the association in question.

The whole fabric of fire insurance is built on the underlying theory of the law of average and the wide distribution of hazard. The local agent, particularly in the towns and smaller cities, has

no opportunity to take advantage of either of these underlying factors, for his field of operations is a very limited one.

A fire insurance company that confined its writings to one town of ten thousand inhabitants, building up a considerable premium income and taking on a large liability in that one town, would not be an underwriter, but a gambler, and anything approaching a conflagration would place such a company on a marble slab in the fire insurance morgue, not only the observed of all observers, but the condemned of all condemners, because of its folly in defying all known principles of safe underwriting.

The difference between gambling and underwriting is only the difference between carrying all the eggs in one basket and distributing them among many baskets. The local agent has no chance for territorial distribution, and with the advent of contingent commissions becomes a gambler with his own income. To be sure, he may alleviate the situation to some extent by greater care in the selection of his bets, and thus help on the chance of winning on each year's experience, but he is subject all the time to contingencies over which he has not the slightest control, that may make his gamble a loss in any or every year. Let me illustrate by supposing that we have in Freeport, as we have, a sprinkler equipped risk carrying approximately \$200,000 of insurance at a 30-cent rate, which is dependent upon a one source of water supply, it is so good a risk that the most skillful underwriters represented in my agency are clamoring for more and more of this business, and so it is no reflection on my skill that I write the risk, distributing it among my companies on an equitable basis. We have recently had a flood in Freeport that very nearly put the water service out of commission. Let us assume that a fire had occurred during that period which destroyed the entire plant, or even 5% of it, and my entire contingent commission for 1916 would have disappeared early in the year. Let us assume, further, that it is the only plant of this character that we have in Freeport. If an individual company had written this \$200,000 line and had written no other similar line on Freeport or elsewhere, we would all agree that the manager was crazy and was entirely unfit to hold a managerial position, and yet you gentlemen would legislate us agents into being as crazy as that manager would have been.

I followed with intense interest a paper on contingent commissions read by Vice President Rumsey of the Continental group of companies at the National Association meeting, to which I have heretofore referred. It was the most scholarly and exhaustive treatment of the subject that I have come across, and I presume it has come to the attention of each of you Commissioners. It is no less interesting and instructive because I have come to disagree with some of its premises and conclusions.

I have referred to the agent's limitations as preventing his securing the benefit of distribution and the general law of average, this reference being in a territorial sense. It is true, however, that the element of time enters into the question of distribution and average, and it is not to be expected that an abnormal loss will occur each year, but rather that he will escape the abnormal loss in a great majority of years, but this doesn't at all mitigate the gambling feature of the proposition.

This observation leads me to the further statement that the adoption of a contingent system will lead to the most erratic of results as regards agents' income.

In the illustrations used in this paper I have treated all the companies in each agency as a unit as a matter of convenience, and, in fact, it has come to be quite the fashion to advocate a system of contingent commissions based on this idea—the individual com-

pany experience in an agency to be merged in the experience of all the companies in the agency as a whole.

The application of this theory leads to results no less than fantastic. It is manifestly unjust to the agent in that it makes him a co-insurer with every company in his agency to the extent of 10% (assuming that his contingent commission is on the 10% basis), of every loss that every company in the agency may incur, until his entire contingent commission is consumed.

This makes the agent more than a sharer of the profits—it makes him a payer of 10% of the losses until his possible contingent commission is exhausted.

The adoption of the contingent system presupposes that the probability of an added profit will induce the agent to exercise great care in the selection of his business, and that because of this care the companies will secure a greater profit, and that out of this greater profit they will be willing to pay the agent an additional reward of 10% for his better service. The outcome will frequently be, however, that two or three companies in a medium sized agency will have losses sufficiently large to wipe out the entire contingent commission of the agency and thus the majority of companies having suffered no loss at all, will profit by the misfortunes of the two or three sufferers, and will thus secure their own profitable business at a 15% flat commission with the payment of no contingent commission whatever. Fantastic, indeed, isn't it?

Then, too, it would require the establishment of a clearing house of large proportions, for it is rare that any two local agencies represent exactly the same group of companies, and it would seem to me to be highly incongruous to require the companies to combine their experience in each year in all agencies, especially in those States where it is made a criminal offense for any two companies, or their representatives, to even exchange greetings on the street. Then, if we are to have contingent commissions at all I am constrained to believe it must be on the individual company basis, there being no other effect on the illustrations used in this paper than to make the results even more erratic than indicated.

The larger the agency the more nearly will its loss ratio approach the normal or average loss ratio each year, and the smaller the agency the more erratic will be the experience.

There are over twelve hundred towns and villages in Illinois with a population between one hundred and five hundred. If out of these twelve hundred villages a sufficient fund is to be accumulated to pay not only the ordinary small losses, but the occasional enormous loss, it is manifestly true that the overwhelming majority of these villages must almost wholly escape loss each year—this condition being less and less true up through the larger towns and cities where the loss ratio year by year will more nearly approach the average. Thus the great majority of the small town agents will get their full limit, or almost their full limit, of contingent commission each year, this percentage being reduced in the larger and still larger agencies. Thus the percentage of income will be in inverse ratio to the service given by the agent in bettering conditions and in more careful underwriting, because it must be conceded that the larger agents are better equipped by study and experience to give real service to their patrons and the public at large than are the little fellows.

Let us take, for example, the Critchell agency in Chicago, in which Mr. Pellet is a prominent partner. I assume that the business of this agency is sufficiently large to afford a fairly uniform loss ratio year by year, and thus afford the agency no opportunity for an abnormal contingent commission in any year, while an

occasional very bad year would wipe out its contingent wholly. But the agents in probably eleven hundred out of the twelve hundred Illinois towns of which I have spoken will, in all probability, get approximately their full contingent commission each year.

Commenting on Mr. Rumsey's argument that under the existing system there is no incentive to the agent to bring about betterment of hazards because of the reduced premium and the resulting reduced commissions, it seems fair to me to say that the history of the business during recent years shows very conclusively that the wide-awake agents are doing this very thing constantly, influenced probably by a variety of motives, some of which are, possibly, public spirit; a sense of responsibility for the client's welfare, and competition—meaning, thereby, that if he doesn't look after his client's interest somebody else will. I am not sure that this condition would be bettered or even changed by contingent commissions.

Assuming that a rating schedule is properly made and properly applied to a special hazard with insurable values of \$100,000 at an annual rate of 1½% and unsprinkled, an annual premium of \$1,500 would be paid on the \$100,000 of insurance, and this would pay the agent a flat 15% commission amounting to \$225.00 plus, let us say, in a normal year, a 10% contingent commission on one-half the premium, amounting to \$75.00, or a total commission of \$300.00. We will presume, further, that through the agent's instrumentality or otherwise a perfect sprinkler system is installed, which, by the proper application of a proper schedule, reduces the rate from \$1.50 to 15 cents, with an annual premium of \$150.00, on which the agent's flat commission would be \$22.50, and his average contingent commission figured as before, \$7.50, or a total commission of \$30.00, as against the \$300 commission before the improvement of the risk.

Using this extreme and yet not altogether unlikely illustration, it will be seen that the agent's percentage of earnings on this risk may fairly be counted as the same both before and after the installation of the sprinkler system, and his actual earnings will be reduced 90% by the improvement.

It will thus be seen that the motive of the agent in advocating such improvement must be found elsewhere than in an immediate profit to him because of his increased contingent earnings; and this motive is no more or no less operative whether we have or do not have a contingent commission system.

The same argument would hold good regarding any of the defects which are charged for or any of the betterments for which credit is given in the makeup of the rate. Charges for defects are intended to represent the additional cost of carrying the risk; and, this being true, betterments are not advocated by companies or agents for the greater underwriting profit to either company or agent, but for the reasons heretofore outlined, the greatest of which is possibly competition, or the stimulating fear of competition.

If these arguments be true, then the great gain in the contingent commission system would come from the more careful scrutinizing of the risk from the standpoint of physical condition as regards cleanliness, state of repair, general good management, etc., and from the elimination of the moral hazard.

I don't want to belittle these influences for I recognize their importance.

I think a careful distinction should be made between this and the general elimination of defects which are charged for in the

schedule, the one will, and, in a general way, the other will not affect the loss ratio.

Having spoken earlier in this paper of the agent as a gambler under the contingent commission system, it seems proper to me to add that I understand it to be a characteristic of gamblers to hedge in their gambling, against excessive losses. In this connection my mind harkens back to a post card received some months ago from a Chicago insurance man, offering to underwrite my contingent commissions. As a matter of fact, I had no contingent commissions and so the matter passed, from my mind until quite recently. It now appears to me as a pretty attractive scheme for the agent who is working on a contingent commission basis, and that it is not impracticable underwriting.

Let's assume an agency in a town of ten thousand inhabitants with a \$10,000 premium income, working on a 15% flat and a 10% contingent basis. Assume, further, that the flat commission, the supervising expense, taxes, internal revenue tax, and other impositions (I use the word "impositions" advisedly), amount to 30%, and that the small every-day losses consume another 20% of the premium income, then, barring the losses of some magnitude, there would be an agency profit of 50%, on which the contingent commission would be \$500.00. Let us multiply this agency by a thousand, and, out of that thousand, the losses of a tremendous percentage, possibly 90%, will, within each year, be confined to the 20% allowance, and, the insurer taking that thousand risks, with thousands of others, can write them at a very low rate and make money in the operation, this being more particularly true in case the contract is based on individual company experience rather than the collective experience of all the companies in the agency. But, when this is done, almost the entire moral effect of the contingent commission method would be thrown into the discard. For myself, my mind is fairly well made up that if we have contingent commissions I shall be looking for the man who sent out this post card, if, indeed, I don't emulate his example and start such an indemnity concern of my own.

Speaking very seriously, however, this simple scheme appeals to me as taking about all the "tinge" out of contingent.

I think that I have made fairly clear my present belief that contingent commissions as an effective remedy for existing evils will prove somewhat of a disappointment. May I be permitted to get a bit farther off the reservation by suggesting that this is not at all unlike the experience with sure cures in general. It will be remembered that within very recent years it was expected by a great proportion of our people that sure cures for most of the ills afflicting the body politic were to be found in the initiative, the referendum and the recall of officials, judges and judicial decisions and in the primary system. None of these have materialized in any large way except the primary system, and a sense of dissatisfaction with this is permeating the people more and more as time goes on. Nobody now talks very seriously of these other measures of alleged reform, because we have come to realize that what the American people needed was a change of heart rather than a change of machinery and instrumentalities. When we experienced a real change of heart to such an extent that we demanded honesty and square dealing from our representatives in legislatures and public office, we ceased to need or even think that we needed these patent devices.

My rather deliberate judgment is that in our line of work a more careful selection of agents and the gradual elimination of the sideliners, incompetents, irresponsibles and derelicts will accomplish

more in the way of reform than would the adoption of the much vaunted contingent commission system, which appeals to me to be somewhat on a par with those now discredited political devices of which I have spoken.

I beg your pardon for having trespassed so far upon your time, and yet I should feel that I had been derelict in the doing of a duty if I should fail to challenge, with all proper respect to this honorable body, its moral, ethical or legal right to assume to dictate the percentage or method of compensation which I, in common with all the other agents in the country, shall receive for my personal services. I am not unmindful of the fact that, by the dictum of the Supreme Court, fire insurance has been virtually decided to be a quasi-public utility, and, as such, subject in large measure to the regulation and control of the public, but as a quasi-public utility it certainly should not be subjected to more rigid control than are the real public utilities—the railroads, traction lines, telegraph, telephone, gas and other similar public servants, and, so far as my knowledge reaches, no board of control of any form dealing with these utilities has ever attempted to decide what wage the employer shall pay or the employee receive, the nearest approach to this having been in cases where a labor dispute as between employer and employed, has been submitted to some more or less (usually less) authoritative body for arbitration.

There is no labor dispute between the fire insurance companies and their employees, the agents, which this body has been called upon to arbitrate. On the other hand, gentlemen, and I say this with all due respect, you are volunteers in this matter, and, as such, are contemplating a step that would, in my judgment, be contrary to all the established canons of business life, and to freedom of contract between the employer and employed.

Having said so much as to the question of your right to deal with this subject, I feel disposed to say that, waiving that point for the moment, it seems to me to be true that if this movement means a real reform, which I do not believe, it is one of those things which must have ample time to develop, and that, thus far, no crystallizing of opinion in favor of contingent commissions has appeared either among companies or agents, and that until such crystallization does occur, however wise the thing may be in itself, it can not be successfully accomplished. And for you commissioners to go back to your respective States and make an effort to secure legislation along this line would be to invite confusion of the most serious character. Hardly two States would legislate alike and general chaos would result, this trouble being one of the inherent weaknesses of our Federal system.

Speaking for myself alone, I can say in the most perfect candor that I am willing to give and want to give the most intelligent service in the selection of risks and the betterment of hazards that my twenty years of experience enables me to give, but having given this service, I am unwilling to hazard a quarter of my income on the results in a field so circumscribed as not to permit of the application of the general law of average, upon which all sane underwriting must be based, and in which limited field a favorable experience in any given year is not of necessity a tribute to my skill, or an unfavorable experience of necessity a reflection upon my capacity.

The summing up of my conclusions, then, is that the application of contingent commissions will not effect the desired end; that it makes the agent a gambler with a goodly proportion of his earnings as the stake; that, thus far, there is no crystallized opinion in insurance circles that will warrant the forcing of the issue at the

present time; that until such crystalization of opinion does occur the task is one impossible of accomplishment; and, lastly, and at least as important as any of the others, that an attempt to dictate the method or amount of compensation to be paid by an employer to an employed is not a proper function of the Commissioner's office or of the legislature.

I trust you will pardon the frankness with which I have spoken on this subject, bearing in mind that I could not speak less freely without violence to my own convictions.

Mr. H. H. Putnam, Secretary of the National Association of Local Fire Insurance Agents, stated that while there were several other agents present representing the National Association, they felt that the case of the agents had been very ably presented and quite sufficiently represented by the remarks of Mr. Pellet and the paper of Mr. Hildreth, but as Mr. Sheldon, representing the American Fire Insurance Company, was present and had a brief address on this subject, he had conferred with the agents and they had decided that they would not have anything more to say on the subject; that they would like to hear from the company point of view and suggested that Mr. Sheldon's address be heard.

Mr. Charles E. Sheldon, Western Manager of the American Insurance Company of Newark, read the following address:

Mr. Sheldon's Address.

I am here today not as a representative of any association of fire insurance companies, nor to speak for any organization of local agents, but as an official of a fire insurance company. I certainly am very much interested in the subject before you, and to a discussion of which you have extended a very general invitation. In view of the great importance of this conference, I am not willing to trust myself to speak extempore, and will ask your indulgence while I read from a brief statement I have prepared.

While no one engaged in the fire insurance business will question your right of investigation, or fail to commend your earnestness and evident sincerity, I think it may be proper, at this time, to raise the question as to the origin of this investigation—this adventure, so to speak, into the domain of the right of private contract between employer and employee—between the fire insurance company and its local representative.

Is it that the compensation allowed to local fire insurance agents is considered excessive, thereby influencing higher rates of premium?

If this is in your thought, I should like to point out to you that the majority of the fire insurance companies, through their company organizations, have, in late years, readjusted the commissions of local agents, making radical reductions in some localities and establishing as nearly uniform and equitable rates of commission as experience and present conditions warrant. I do not believe the companies can hold out to you, as a general proposition, any reasonable hope for a further reduction in the compensation of local agents.

Perhaps it is not a reduction in the income of the wage-earner in these times of increased cost of living which is your aim, but that through the medium of contingent commissions you would aid him to secure a more liberal remuneration for his labors. If such be the case, I have to remind you that the leanness of the

profits in the fire insurance business is ever assisting in the process of the assimilation of the smaller companies by the larger institutions, and any added burden on the business will only hasten the progress of their digestion.

I imagine, however, that we shall have to look for other reasons than those I have referred to as prompting this discussion.

Stripped of its verbiage and denuded of its sophistry, the plea for the compulsory satisfaction of agents upon a contingent commission basis is simply an indictment of the present method of compensating agents and an arraignment of the agents themselves on the charge of a disregard for public safety and through greed for commissions contributing to the high fire waste of this country. I have no controversy with the idea of profit-sharing as affecting insurance agents any more than I have with the principle of a division of profits with the employed in other lines of endeavor. I am quite willing to recognize, in a pecuniary way, and in any suitable manner, the superior work of experienced and energetic men, but the proposition that the fire insurance business, as a whole, shall be fitted to a suit of contingent commissions does not appeal to me.

Those particularly advocating contingent commissions may, superficially at least, be divided into three classes:

(1) Those company officials who see in the general use of this method of compensation the gradual fulfilment of their hopes and prophecies, i. e., the elimination of the small and medium sized companies.

(2) Those agents—chiefly residents of the larger places or occupying commanding positions—who see in the contingent commission plan the effective weapon for the practical elimination of competition; and,

(3) Those insurance department officials, usually sincere, often inexperienced, but all imbued with a desire to "do something" to regulate the fire insurance business, whose impractical vision leads them to view as substantial a "will-of-the-wisp."

If agents are responsible for the high loss ratio, why is it that in some States the companies over a series of years have invariably shown profits, while in others a notable loss. Are agents more honorable and have they greater ability in one State than in another? For years the companies have, by common repute, lost money in practically all of the Southern States, and also in nearby territory which courtesy forbids my naming. Are the agents in the Southland and those other unprofitable States devoid of conscience and intelligence? You would hardly assert this, and yet, how can you get away from this deduction if the present method of compensating agents is held to be responsible for excessive losses?

While the arguments for contingent commissions present a beautiful theory, and the picture presented of taking the agent into business partnership is a wonderful chromo—the cold, hard facts will prove that this method of compensation, if made compulsory, will turn out to be the most efficient weapon that could be devised for the destruction of the present agency plant. It will extinguish, in a comparatively short time, a great number of companies; will make the formation of new ones an impossibility, and will put out of business so many local agents as to amount to an economic disaster;—it will create a host of spineless inter-insurers, local mutuals and fly-by-night concerns, furnishing "almost" insurance which hardly qualifies as good collateral and which, in the event of great disaster, would prove but a broken reed.

Another thing to be taken into consideration is that the average insurance agent cannot conveniently wait twelve months to secure

a considerable part of his income, and with many the family and business obligations will not justify him in hazarding a good portion of his income on the results of so precarious a business as that of fire insurance with all its varying fortunes.

The company which I have the honor to represent in the Central West receives through its Rockford office an annual premium income of approximately one million dollars from the insurance of farm property. This business is very largely—practically all—obtained through agents who go into the farming communities and canvass from house to house. The circumstances of the greater part of these workers require the weekly and always the monthly payment of their earnings. An intimate acquaintance of more than thirty years with this branch of our business warrants me in stating, without reservation, that compulsory contingent commissions would put agent and company out of business, so far as this class of insurance is concerned.

A principal owner in several important fire insurance companies and an earnest advocate of contingent commissions, though opposed to making them compulsory, has gone into print with this statement:

"Before graded commissions were put in force we did business in many bad record sections on a profit-sharing basis only, and we made money. Our agency managers, thinking only of the profit they had made, and in order to 'hold the business,' replaced these profit-sharing contracts with graded contracts, and the record changed; we lost where before we had made money."

I quote this statement solely because it appears to be a strong argument for contingent commissions, but let us stop and consider whether this company would have maintained its preferential position in the agencies referred to if the method of compensation for all of the companies represented had been uniform and compulsory, and whether underwriting results would have been the same if the fortunate company had been treated to "pot luck" with its associates. A further question might be raised as to whether this company in "licking off the cream," was rendering full service to the public. The whole argument that contingent commissions will reduce the loss ratio is fallacious and harmful unless you contemplate leaving without the protection of fire insurance a large amount of property which certainly needs its indemnity as much as the more profitable classes which have been largely secured in the past by the payment of generous commissions, whether flat or contingent.

I think, gentlemen, you will have to look to other causes than the local fire insurance agent for the devastating fire waste.

Is there not some mistake in the popular conception of the large percentage of incendiary losses or the sometimes expressed opinion of the extremist and uninformed that but for fire insurance such losses would not occur? If you are really seeking information upon this subject, which is tied up with the effort to put over contingent commissions, I wish you would carefully read the address of Mr. Frank Lock, New York manager, The Atlas Assurance Company of London, delivered before the International Association of Fire Engineers upon the subject of "The Relation of Fire Insurance to Incendiarism."

The Texas State Insurance Board, according to published reports, holds that at least 80 per cent. of the fires are preventable by the exercise of reasonable care and protection, individual and municipal.

I have seen a statement to the effect that there are 400,000 insurance agents in the United States, and that probably 2,000,000 persons are dependent upon them for daily support. If the contention of some advocates of contingent commissions that the present general plan of compensating these agents by a flat commission is immoral and contrary to the public interest, then by inference this large body of American citizens is, as a whole, without business conscience, and hence becomes a dangerous element in the community—a menace to the prosperity and safety of the country. I know it is flippantly, and as a general proposition most untruthfully, said that men who fail in other lines—that any one, in fact, can become an insurance agent, “because it requires no capital,” but if we were to measure the dignity and usefulness of every vocation by the standard of capital invested, we might go far astray. There are some kinds of capitalized industry from which I imagine all of us would turn, preferring the occupation of the plain, industrious local fire insurance agent even though it was known that we were to be paid “flat commissions.”

As for “failures,” I make my profound obeisance to every man who courageously takes up the broken threads of an unfortunate business experience and manfully seeks, by honesty and industry, to weave again the warp and woof of the fabric of business independence.

Without capital I began my career as an insurance agent, and my compensation was always a percentage of the premiums secured, but my record is clean as is that of the great majority of local agents today whom it is proposed by some to place under the ban of compulsory contingent commissions.

But who wants uniform and compulsory commissions with the contingent feature added; and why do they desire this method of compensating agents? Let me answer:

The larger fire insurance companies would undoubtedly all favor uniform flat commissions, and most of them accept the contingent commission plan because it would practically eliminate from competition a great number of the smaller institutions.

While from selfish motives I would favor for all companies uniform commissions, I cannot view with complacency the gradual retirement of the small companies or the concentration of business with a comparatively few large corporations and their foreign reinsurers. Do you have in mind that in the last decade the United States premiums of these foreign reinsurers have increased from \$10,951,316 in 1906, to \$43,532,450 in 1915, and that while the reinsurance companies have increased their premiums nearly 300%, the premiums of the stock fire agency companies have grown only 32% in the same period? Do you wish to see the “little fellows” crushed between the upper and nether millstones of bad legislation and the rivalry for business of his big associates?

But who else would favor compulsory and uniform commissions with a contingent attachment? A good many, but by far not all of the leading agents of the country. Even most of those who favor the scheme don't want the kind of “fifty-fifty” proposition which has been suggested, i. e., 12 1-2% flat and 12 1-2% contingent. They want practically the same flat commission with the contingent thrown in for a “sweetener.” And, candidly, I don't blame them, for in connection with the work of a committee which had to do with the revision of commissions in certain large cities of the West, I became satisfied that the services demanded of fire insurance agents in the large cities and the resulting expense attendant upon these services warrant special consideration being given to the matter of their compensation.

How about you gentlemen of the Insurance Departments? The "pipers" before whom we are often called upon to "dance."

While on the subject of contingent commissions, how about the matter of contingent taxes? Why wouldn't it be an equitable proposition to tax the fire insurance companies upon their premiums, less losses? Why should we pay 2 or 2 1-2, or even 3%, on the amount of our losses incurred in any State? That in effect is what we are paying when you require us, as at present, to pay upon our gross premiums.

Again, why would it not be a wise, economic proposition if instead of turning into the general treasury the several millions of dollars which you collect as taxes from the insurance companies in excess of the expenses of operating your departments, this tax "upon thrift and prudence" which is collected from the provident property-owner should at least be utilized in a State Inspection Bureau, employing competent men with all the authority necessary to require better protection from the fire hazard in dangerous buildings and localities, in furthering not only the enactment, but the enforcement of better building laws, in assisting to create more efficient fire departments, and through all these means lessening the fire waste about which so much has been said, and the cause for which the advocates of contingent commissions are laying principally at the door of the local agent. How about the thousands of ignorant and indifferent property-owners who maintain fire-traps, and who will not yield to the persuasion or threats of insurance inspectors, but continue to maintain conflagration-breeders in the large cities, and who many times, as a matter of fact, have been directly responsible for great loss of life and property?

Do none of these things appeal to you as officials, to whom the people look for the supervision of the fire insurance business, and cannot your time and talents find the fullest scope in giving attention to these most flagrant cases of indifference to the duties of citizenship and for the life and property of others?

I wonder if any of you have ever labored in the "trenches" of the fire insurance business—"hot-footed" after an elusive prospect—have worn out shoe leather from a sense of duty in following up the small property owner to provide the indemnity which he might sorely need, and receive as your compensation a commission which hardly paid for the clerical work of recording and reporting the business?

How many of you have collected these premiums in dribblets, granted credit to clients without ready funds in order that they might not lose the benefit of fire insurance?

I wonder if some of you were ever field men, required to adjust many delicate questions with agents and property owners, called upon to display a knowledge of science and mathematics and other things which perhaps you did not learn in your school days?

Possibly some of you have been officers of small insurance companies, struggling for "a place in the sun," endeavoring to safely wend your way amidst the impediments of State supervision and regulation on the one hand, and the competition of the "big fellows" on the other.

But, perhaps you have never met with any of these experiences, and if such be the case, I beseech you to temper your zeal with moderation and to not inflict upon the insurance business, already grievously burdened, any further radical changes in methods of practice; at least give long and careful consideration to these questions before committing yourselves to any policy which may make the fire insurance business more difficult for so many companies and their local representatives.

The matter was further discussed by Mr. Carey J. Wilson, Commissioner of Kansas, Mr. L. T. Hussey, Fire Marshal of Kansas, and Mr. Harvey Wells, Commissioner of Oregon.

UNIFORM MUTUAL LIFE UNDERWRITERS BILL.

Mr. H. Nelson O. Tiffany, President of the Mutual Life Underwriters, addressed the Committee and asked the Commissioners to give consideration to the uniform bill which was proposed by the Mutual Life Underwriters between now and the next meeting of the Convention, when the Convention would be asked to act upon it.

The following is the bill proposed by the Mutual Life Underwriters:

AN ACT Relating to Life Insurance Corporations on the Mutual or Co-operative Plan.

Incorporation.

Thirteen or more persons may become a corporation for the purpose of making insurance upon the lives or the health of persons, and every insurance pertaining thereto, by making and filing in the office of the Superintendent of Insurance a certificate signed by each of them, stating their intention to form such a corporation, and setting forth a copy of the charter which they propose to adopt, which shall state the name of the proposed corporation, the place where it is to be located, the kind or kinds of insurance to be undertaken, the mode and manner in which its corporate powers are to be exercised, the manner of electing its directors and officers, the time of such election and the manner of filling vacancies. Such certificate shall be proved or acknowledged and recorded in a book to be kept for that purpose, and a certified copy thereof delivered to the persons executing the same.

Completion of Organization.

Upon receipt of the certified copy of the certificate of incorporation from the Superintendent of Insurance, the persons signing such certificate shall publish for six successive weeks, in a paper published at the capital of the State in which notices by State officers are required by law to be published, notice of their intention to form such corporation. No such corporation shall commence the business of insurance until at least two hundred persons, eligible under the proposed plan of the corporation, have subscribed, in writing, to be insured therein in the aggregate of at least five hundred thousand dollars, and have each paid in the amount in cash of one annual net premium for their age of entry on the amount of insurance severally subscribed, and the same is deposited in a duly incorporated bank to the credit of such company to be held in trust for the benefit of the members and beneficiaries; and the Department of Insurance shall have further certified that the corporation has complied with the provisions of this article and is authorized to transact the business of insurance.

Corporations subject to This Article.

Any corporation or association incorporated or reincorporated hereunder, which is under the control and government of its members, and which issues any policy, certificate or other evidence of

interest to, or makes any promise or agreement with its members whereby any money or other benefit, contingent upon the death, sickness, disability or continued survivorship of its members, is derived from premiums collected from its members, or members of a class therein, or from interest or accumulations, and wherein the money or other benefits so realized are applied to or accumulated for the use and purpose of such corporation or association as herein specified, and the expenses of its management and prosecution of its business, shall be deemed to be engaged in the business of life or health insurance and shall be subject only to the provisions of this article, excepting that the provisions of the general insurance law shall be applicable so far as same are not inconsistent with the provisions of this article.

Existing Corporation, Associations or Societies Qualifying Under This Article.

Any domestic corporation, association or society, described in preceding section, existing or doing business at the time this article takes effect, may, by vote of a majority of its board of directors or trustees, accept the provisions of this article and, if necessary, amend its charter to conform with the same, upon obtaining the consent of the Department of Insurance thereto in writing, and, thereafter it shall be deemed to have been incorporated under this article; and every corporation, association or society in re-incorporating or qualifying under the provisions of this article, may, for that purpose, so adopt in whole or in part a new charter in conformity herewith, so as to cover and enjoy any and all the provisions or privileges of existing laws which might be included and enjoyed if it was originally incorporated hereunder; and it shall, upon such adoption of such amended charter and filing the same with the record of adoption in the office of the Department of Insurance, perpetually enjoy the same as, and be, such corporation, and which is hereby declared to be a continuation of such corporation which existed prior to such re-incorporation and the offices therein which shall be continued shall be filled in such manner as shall be provided in such amended charter. The reincorporating or qualifying of any existing domestic corporation, association or society under the provisions of this article shall in no way annul, modify or change any existing contract, contracts or liabilities of such existing corporation, association or society; and any and all such contracts and liabilities shall continue in full force and effect the same as though such corporation, association or society had not reincorporated or qualified under this article. Neither shall the reincorporating or qualifying of any corporation, association or society, under the provisions of this article, in any way prejudice, impede or impair any previous action or proceeding, or any rights previously accrued.

Valuation.

Corporations, associations or societies chartered and licensed under the provisions of this Act shall provide for a valuation of their insurance contracts, exclusive of those issued within the year for which the report is filed in cases where the contributions in whole or in part are used for current mortality and expenses, as follows:

Beginning with the year, such valuations shall show, in the case of all contracts then subject to valuation, with rates of premium contribution for a given term of years or for the whole of life, based on a specific table of mortality and rate of interest, as

contingent liabilities, the mid-year value of the promised benefits provided under the constitution and laws, to the date when, by the terms of each contract, the insurance thereunder ceases or the premium rates change; and as contingent assets, the corresponding present mid-year value of the future net contributions, provided in the laws, as actually collected upon the above named contracts.

At the option of any corporation, association or society, in lieu of the above, the valuation may show the net value of the certificates subject to valuation as hereinbefore provided. The said valuation, when computed in the case of monthly contributions, shall be the mean of the terminal valuations for the end of the preceding and the current years. Such valuation shall be certified by a competent actuary or accountant, or, at the request and expense of the corporation, association or society, shall be verified by the actuary of the Department of Insurance of its home State, and shall be filed with the Department of Insurance within ninety days after submission of the last preceding annual report.

The legal minimum standard of valuation for all policies or certificates, except for total disability benefits, shall be the National Fraternal Congress Table of Mortality, as adopted in 1899, but, at the option of the corporation, association or society, any higher table may be used. Each such valuation shall set forth fully and clearly the mortality and interest basis of such valuation. In the absence of any specified standard, the National Fraternal Congress Table and four per cent. shall be the basis. The valuation herein set forth shall not be considered or regarded as a test of financial solvency of any such corporation, association or society, which shall be held to be legally solvent so long as the funds in its possession are equal to or in excess of matured liabilities, including net funds necessitated by the standard of mortality and interest in use by the said corporation, association or society, to carry the risk under each policy to the date when the same shall cease and determine, unless a further payment is then made by the member on whose life the same is issued.

If the valuation of the contracts covered by the preceding provision on shall show that the present value of future net contributions, together with the admitted assets, less the accumulation to the credit of contracts under which the rate of premium changes annually, is less than the present value of the promised benefits and the matured liabilities, such corporation, association or society shall thereafter be subject, as to all of its outstanding contracts of insurance, to the provisions relating to the valuation of contracts with annually advancing rates of premium as hereinafter provided.

Any corporation, association or society, which issues contracts of insurance with rates of premium contribution which do not conform to any specific table of mortality and rate of interest, shall, as to such contracts, value on a basis hereinafter designated,—“accumulation basis,” by crediting each member with the net amount contributed for each year and with interest at the approximate net rate earned by the association, and charging him with his share of the losses each year (herein designated cost of insurance), and carrying the balance, if any, to his credit. The charge for the cost of insurance may be according to the actual experience of the corporation, association or society, applied to a table of mortality not less than the National Fraternal Congress Table, and recognized by the laws of this State; and shall take into consideration the amount of risk each year, which shall be the amount payable at death less the credit to the member.

If any member's tabular cost of insurance for the years succeeding the date of the valuation determined by the standard adopted by the corporation, association or society, is in excess of his credit and the stated contribution under his contract for such year, the contribution for such year shall forthwith be increased to cover at least the amount of the deficiency, provided that any such deficiency chargeable to any member may, to the extent of his proportionate interest therein, be paid out of a fund—if such exists—especially created or required for such purpose.

Any member may transfer to any plan adopted by a corporation, association or society, with net rates on which tabular reserves are maintained; and on such transfer shall be entitled to such application of his credit, as above determined, as the laws of the corporation, association or society may provide.

Nothing herein contained shall be construed to require any corporation to keep individual bookkeeping accounts for each member, nor shall any member through or by reason of any valuation required in this article have or acquire any individual rights in the funds of the corporation, association or society, or become entitled to any apportionment or surrender interest therein other than the constitution and laws of the corporation, association or society, specifically provide.

Any corporation, association or society having contracts outstanding subject to each form of valuation herein provided may segregate the reserve funds belonging to either class and hold them, as if in a separate institution, for the benefit of the class by which they were accumulated.

Distribution of Surplus.

If the cash and invested assets of the corporation, association or society, or any class thereof whose reserve has been segregated as above provided, exceed the reserve fund required by this article, as determined by valuation and the actual liabilities of said corporation, association or society, to an amount in excess of ten per centum of such reserve fund, then the amount of such excess may be apportioned by the corporation, association or society as a dividend to members or policyholders in reduction of premiums, in the purchase of paid-up or extended insurance, or such dividend or dividends may be paid to the beneficiary of a deceased member in addition to the face of his policy or certificate.

Foreign Corporations, Associations or Societies.

No corporation, association or society organized under the laws of any other State or territory of the United States or of the District of Columbia or foreign country, shall transact business under the provisions of this article until it has received from the Department of Insurance a certificate of authority to do business in this State, a duplicate of which shall be filed in its office. The Department of Insurance shall annually issue to such foreign corporation, association or society a renewal certificate of authority to continue its business if it shall have fully complied with the laws of this State, and its annual report is satisfactory to such Department, which certificate shall be filed in the office of the clerk of the county where its principal office is located within this State, within sixty days after the filing of such annual report, and no such foreign corporation, association or society shall be authorized to continue such business after the expiration of such sixty days, unless such certificate shall have been so received and filed. When any State or territory shall impose any obligation upon such corporation, association or society

of this State or its agents transacting business in such other State or territory, the like obligations are hereby imposed upon similar corporations, associations or societies of such other State or territory, and their agents or representatives transacting business in this State, and such corporations, associations or societies of such other State or territory, and its agents or representatives shall pay all licenses, fees and penalties to and make deposits with the Department of Insurance, imposed by the laws of such other State or territory upon any corporation, association or society of this State doing business therein; and in case of failure to pay the same, the Department of Insurance shall refuse the certificate of authority herein provided for or cancel such certificate if one shall have been previously issued. Neither shall any foreign corporation, association or society be authorized to do business in this State unless it has the qualifications required of domestic corporations under this article and holds for the benefit of its policyholders or members, funds at least equal to its accrued liabilities as defined in this article.

No Forfeiture of Policy or Certificate Without Notice.

No life insurance corporation, association or society doing business under this article in this State shall declare forfeited or lapsed any policy hereafter issued or renewed unless the same is a term insurance contract for one year or less, nor shall any such policy be forfeited or lapsed by reason of non-payment when due of any premium, interest or installment of any portion thereof, required by the terms of the policy to be paid unless a written or printed notice stating the amount of such premium, interest, or installment, or portion thereof, or to become due on such policy or certificate, the place where it should be paid, and the person to whom the same is payable, shall have been duly addressed and mailed to the person whose life is insured, at his or her last known postoffice address, postage paid by the corporation, association or society or by an officer thereof, or person appointed by it to collect such premium, at least fifteen and not more than forty-five days prior to the date when the same is payable. The notice shall also state that unless such premium, interest, installment or portion thereof when due shall be paid to the corporation, association or society, or to a duly appointed agent or person authorized to collect such premium on or before the date it falls due, the policy and all payments thereon will become forfeited and void. No such policy shall in any case be forfeited or declared forfeited or lapsed until the expiration of thirty days after the mailing of such notice. The affidavit of any officer, clerk, employee or agent of the corporation, association, or society, or of any one authorized to mail such notice, that the notice required by this section has been duly addressed and mailed by the corporation, association or society, or its representative shall be presumptive evidence that such notice has been duly given.

Discrimination Prohibited.

No life insurance corporation, association or society subject to the provisions of this article shall make any discrimination in favor of individuals of the same class or of the same expectation of life, either in the amount of premiums charged or in any return of premium, dividend or other advantages. No agent of such corporation, association or society shall make any contract for insurance or agreement as to such contract other than that which is plainly expressed in the policy issued. No such corporation, association or society or agent thereof shall pay, or allow or offer to pay or allow,

as an inducement to any person to insure, any rebate or premium, or any especial favor or advantage whatever in the dividends to accrue thereon, or any inducement whatever not specified in the policy. If it shall appear to the satisfaction of the Department of Insurance, after a hearing by it, upon due notice, that any corporation, association or society is issuing policies or making contracts that are in violation of this section, he shall, upon the written approval of the attorney-general, require such corporation, association or society, and its officers and agents to refrain, within twenty days, from making any such policy or contract. If any such corporation, association or society or officer or agent thereof, shall fail to comply with the provisions of this section, the Department of Insurance shall institute such proceedings at law as may be necessary to restrain such violation of this section.

Personal Liability.

No person shall incur any personal liability for the losses or liabilities of any corporation, association or society organized or doing business under this article by reason of being a policyholder or a certificate holder or member in such corporation, association or society.

Change of Beneficiary.

Membership in any such corporation, association or society shall give to any member thereof the right at any time, with the consent of such corporation, association or society, to make a change in his payee or payees or beneficiary or beneficiaries without requiring the consent of such payees or beneficiaries.

Exemption from Execution.

The money paid by any such corporation, association or society to a member or beneficiary shall be exempt from execution and shall not be liable to be seized, taken or appropriated by any legal or equitable process to pay any debt or liability of a member or the widow or minor children of a deceased member of such corporation, association or society designated as the beneficiary thereof.

2. Any such corporation or association may, from time to time, adopt and promulgate laws, rules and regulations for the government of itself and members, not inconsistent with the provisions of this article and from time to time amend the same.

3. All acts or parts of acts in conflict with this act, or any parts thereof, are hereby repealed.

This act shall take effect upon its passage.

NOTE.

The foregoing bill was prepared and reported by a Committee of the National Association of Mutual Life Underwriters. This Committee was appointed January, 1914. Copies have been circulated among all members of the organization with request for criticism. The bill, as submitted, has been under study for almost two years. All objections which have been submitted to the Committee have been adjusted.

MUTUAL LIFE UNDERWRITERS,
Nelson O. Tiffany, Jr., Secretary,
Buffalo, N. Y.

October 1, 1915.

Mr. G. W. Hopkins, Vice-President of the National Association of Life Underwriters, discussed the matter.

SPECIAL COMMITTEE APPOINTED.

Commissioner English, of Iowa, moved that a special committee from the Laws and Legislation Committee be named for the consideration of this matter and have a report at the September meeting of the Convention, the number of the members of the committee to be left to the discretion of the chairman.

The chairman announced that he would make the appointment of the committee later.

CONTINGENT COMMISSIONS AGAIN.

Commissioner Young, of North Carolina, discussed the matter of contingent commissions. As embracing the remarks made by Commissioner Young, the following paper submitted by him is inserted as part of the record:

FIRE INSURANCE EXPENSES.

Fire insurance is a business. The too common idea or impression that in some way it is charitable or benevolent in its character should be discarded. The character and number of men, as well as amount of capital engaged in it show its magnitude. Its great importance is expressed in the fact that practically all other classes of business are in some way dependent upon it. Because of this the Supreme Court has commented upon its quasi-public character and the right of the government to supervise its rates.

All classes of fire insurance companies, even stock, are in their character essentially mutual. The premiums charged are or should be the measure of hazard and by their differences serve to provide for and distribute the cost of the business. The premiums must provide for the losses, the expenses and where a stock company, the dividend on the stock or capital invested.

The losses incurred must be paid and necessarily make up the largest amount of the premium. Their reduction means, or should mean, a reduction of the premiums. The assured can possibly do more to lessen the losses than the company and its agents; but all, the assured, the company, its officers and agents, should bend every effort to this end and receive the hearty and intelligent aid of the government, national, state and local. In most States and cities, this is being done in the great work of preventing as well as of putting out fires.

The interest or dividend for the use of the capital is a necessary factor, but must depend to a large degree upon what is left after the payment of the losses and expenses. The dividends should be fair and just and commensurate to the profits from other classes of business of like or similar character. Of course, they should not be such as to call for high or excessive rates.

The expenses of the business are most worthy of consideration, as of vital interest not only to the company and its employees, but to the assured or policyholders, who must, in the end, pay the bill. It is worthy of note that the expenses of conducting the fire insurance business, generally looked upon as high, if not excessive, have gradually gone up from 31.06 in 1860-70, to 42.66 in 1914. A large part of this expense, over one-half, is the commission or

expense of the local agent, reaching in 1914 21.79 for all companies, from 11.32 in the period 1860-70 inclusive.

The possibility of a reduction of the expenses of conducting fire insurance often comes up. Is it probable or even possible? This is the question. At any rate, there lingers in the minds of very many the idea that if fire insurance is practically mutual, and is of the nature of the collection and distribution of a tax, it costs too much—is run at too heavy an expense. Why should it take, say, \$4,266.00, to collect and distribute \$5,734.00 among the class of our fellow citizens known as the assured or policyholders?

Even if there cannot be made a reduction of the expenses—Home Office and Agents—of fire insurance companies, it is asked why cannot there be such a rearrangement as will tend at least for efficiency and better results? The inequality of the distribution of the payment is startling. The local agent is paid anywhere from 15 per cent. to 40 per cent. or even 50 per cent. of the premiums handled by him. Why such a difference? Again, it is paid to the inefficient and careless agent just as it is to the active and efficient agent—even to the broker, who does not even represent the company. The amount or character of the service does not appear to be taken into account at all. Again, in many cases—say of preferred risks—extra large commissions are paid even while the companies complain of making no money on them, and insist upon higher rates. Should there not be some relation between the rates charged and the expenses, both home office and agency?

Among other suggestions for the betterment of the business has come the suggestion of the use of contingent commissions as a basis of compensation for agents or rather a use of flat and contingent—say one-half each—as the basis for compensation. It is also suggested, to relieve the objection urged against contingent commissions, that it brings about a switching of business from one company to another, that the contingent be based on the profits of the agency. It is not claimed that this will prove a panacea for all the evils or troubles in the business, but it is thought that it will at least tend to help matters. All admit that theoretically this is true, and very many are satisfied that there are no insurmountable difficulties in the way of its practical working.

As far as I know, those favoring this change are in favor of having it by an agreement between the companies and their agents and not as a statute regulation, except as a last resort. In fact, the resolutions heretofore adopted by this convention expressly set this out. This I understand to be the position among most of our commissioners as to all restrictive laws.

Nothing is ever settled until it is settled right. For years there has been a general dissatisfaction with the agent compensation question. The great difference in the compensation of agents in different States and sections—the different per cents. on different classes or risks and other well known conditions would account for this even if it was not a fact that under the systems generally prevailing, the incompetent and careless agent is rewarded for his lack of knowledge and care, while the agent who knows his business and brings to it his best thought and experience, is penalized for thus efficiently serving his company and the public.

Again, this is a day of co-operation and mutual sharing of responsibilities, burdens and profits. Profit-sharing is being tried in practically every line of business and with satisfactory results. Why not in the fire insurance business? Why longer attempt to "hobble" the business by going to the very opposite extreme of the plans and methods successfully employed in other classes of business?

This is a great question. It affects all who are touched by fire insurance. It is not merely a commercial question between the company and its agent. If it were, then all others could stand aside and let the fight go on—the company to pay least for business, regardless of service or its worth and the agent to fight for all he could get out of it, regardless of the service rendered. The question is a bigger and broader one than this—in fact, so big and far-reaching in its results that it commands and should receive the best thought and most patient consideration of all, especially the companies and agents.

It is generally admitted that the present mode of compensation of fire insurance agents does not meet with the approval of those who have given it the most thought and is at least theoretically unsound. Many of the insurance commissioners think a change should be made, while some of the wisest company officials and underwriters are, like some of the most loyal and experienced agents, outspoken in a belief that some form of contingent commissions is best. The only question in their minds seems to be the details, and these they think will not present insurmountable difficulties.

There is no use of condemning the insurance commissioners for suggesting a consideration of the matter and even expressing a belief that contingent commissions would improve conditions. The commissioners are not wholly ignorant of the subject, and show a willingness to learn by asking for a full expression from the company officials as well as the agents. They wish a change for as they now see it, it would be better; but they have open minds and ask for information and not lectures or tirades and abuses.

If the proposition is a good one it is desired to be put in practice by the companies and agents—not by legislation; but by legislation if absolutely necessary.

Why should not the compensation to fire insurance agents be uniform in all sections and in all classes of risks? Why should it not be on a proper contingent basis? Cannot these improvements, if improvements they are, be brought about without unduly increasing the cost of business to the companies or decreasing the compensation to agents or even without any changes in these respects? Will not an examination show that the only change that need be made will be a redistribution of the amounts paid for the business?

In a paper before the convention at Del Monte, I undertook to give a synopsis or review of the proposition with a statement of the views of company officials, agents, editors and insurance commissioners favoring contingent commissions. To any one who will take the time to look into the matter, it will appear that there is a deep and widespread feeling, not only for a change in the basis of agents' compensation, but for putting it in some form of contingency or profit-sharing, or at least for a tendency to greater efficiency. That the details are to be worked out and call for care and much thought is also true.

The change in agency compensation should not be made the occasion for an attempt on the part of the companies to unduly decrease the compensation of agents or on the part of the agent to make a fight for increased compensation. It is intended and should be more in the nature of a redistribution. If there should be a change in the amount paid to and received by fire insurance agents, let it come up as a separate proposition on its merits.

To base the contingent on the result in the agency rather than for each company, will prevent the "switching" of business, so much feared by companies in the consideration of this plan. A plan could be worked out for the compilation of the results so that the

business of a company or an agent would not be exposed. In fact, in my opinion it would pay any State to provide for this at no cost to the company or agents. The results would justify it.

Some think the contingent should run from year to year for say five years. This might work well, but I doubt it. Some think it would be well to consider the results in a State. This might work, using a small part of the contingency per cent. in this way. But each agent necessarily has a small part in the results in the State so far as his care and efficiency is concerned.

Some company officials will say they would prefer 15% flat and nothing more. Of course, this would be preferable from their standpoint, as it would mean less commissions. Perhaps some agents will say they would prefer a large flat and small contingent or a larger flat commission and no contingent. This would be fair, viewed from the standpoint of increased compensation to agents.

Some will say an agent has nothing to do with the underwriting policy. If so, it is only too bad. In days gone by the agent in many cases certainly paid more attention to the character of business he wrote and the companies fared better I am told. Of course, the agent is not entirely responsible for losses. Neither is the assured or the company; but when losses come the company pays up, the assured bears the loss of the uninsured part as well as other losses and inconveniences, while the agent has received his full commissions on the business burned and proceeds to write new business, stirred up by the fire scare and pocket full of commissions again.

Some fear for small agencies. In some cases these will be hit hard, but the evening up will be at least every five years, if proper care is exercised. At any rate, let compensation for small agencies, in some districts now low, be put on the same basis as others. Certainly a change should be made from present plan, where in many cases the highest commission is paid on the class or classes furnishing the heaviest loss ratio.

Some say agents are against the proposition. Some are. Some are not. All should bring to its consideration an open mind and the use of their best judgment and ripe experience. Like all changes, it meets opposition, and there is no trouble to find objections, especially if we are to think up and use such extreme cases as might possibly occur.

Some will say the commissioners don't know—haven't the experience and underwriting knowledge—that the matter should be left to the companies. Certainly! A consideration of these things has prompted the commissioners to ask the companies and agents to consider the matter and advise with them here today. Let's study and undertake to solve the problem. We don't want legislation—it might fail in many States—might be considered unconstitutional, for while we would not take from the companies the control of underwriting, is it too much to ask that they shall use their agents in the selection of risks? Some say the proposition will not do because the companies do not expect any underwriting profits. Hardly, if they did not, it would be wise to turn their capital to other channels where the exposure hazard would not be so great.

Agency Losses.

It may be of interest to pause here and examine some figures compiled as showing the result in twenty thousand agencies distributed throughout the country.

Twenty thousand agencies with \$27,000,000 premiums and \$14,000,000 of losses gave the following results:

Agencies.	Premiums.	Per Cent. of Losses.	Losses
11,000	\$6,300,000	.....	None
2,700	5,300,000	Under 10%	\$ 193,000
1,000	3,300,000	10% to 25%	580,000
1,000	4,200,000	25% to 50%	1,500,000
756	2,500,000	50% to 75%	1,600,000
3,100	5,300,000	Over 75%	10,000,000

Thus it is seen that the losses in different agencies will vary very much, and theoretically, at least, depend largely upon the care with which business is selected. It can hardly be claimed by intelligent underwriters that the great differences in losses in insurance agencies is not brought about, or at least to some extent affected, by the work of the agent. To say that an agent does not and cannot by knowledge, care, and judgment exert any influence upon losses on business written by him would be to separate it from all classes of business and the rules that are supposed to govern them.

Undoubtedly the contingent plan of compensation, as any other, must work some hardships under some circumstances; but it will certainly favor regular and efficient agents who make the business their life work, as against those agents who devote little time and thought to it, merely operating it as a side line. In time it will eliminate many of the latter class, and no doubt keep many more from entering the business. In the opinion of many it will prove a powerful instrument for efficiency and agency qualification.

I do not deem it desirable at this time to enter into any details. These should be worked out by the companies and their agents. They should know and understand the business in all its details, and have only to take hold of the proposition to bring about a solution.

I will only say again the present method is unsatisfactory. Theoretically at least the suggested change shows up well. In the opinion of many, it will greatly help the business, while not correcting all its evils. The times have changed, and we must adopt ourselves to these changes in all classes of business. It is not without its significance that we are here considering this matter in Missouri.

A study of the statistics and figures will prove interesting and possibly surprising to some.

The following figures are based upon the results in 20,000 agencies with \$27,000,000 premiums and \$14,000,000 of losses throughout the country as well as upon results in different States of individual companies and of 59 companies by agencies in North Carolina (see attached table):

1. On an average.
Fifty per cent. of agencies have no losses.
Seventy per cent. have a loss ratio of 20 per cent. or under.
Eighty per cent. have a loss ratio of 50 per cent. or under.
Sixteen and two-third per cent. have a loss ratio of 70 per cent. or over.
2. The average commission, where a graded commission of 15, 20 and 25 per cent. is paid, is about 17 1-2 per cent.
3. On the average a contingent of 12 1-2 per cent. flat and 12 1-2 contingent will pay about 17 1-2.
4. In Texas, where 15 per cent. flat only is paid, such a flat and contingent will, of course, produce an increase.
5. If arranged on a proper basis, the company will pay out about the same amount for commissions under either. The difference is in the distribution only.
6. While the distribution under a contingent plan of compensation favors an agent having fewer or no losses, we can hardly object

to this. Would it be unfair to presume that such an agent was on the whole more efficient and careful?

7. The contingent plan should be satisfactory to the insurance companies, for they will at least have the satisfaction of knowing that the contingent commissions at least go to the agent giving a less loss ratio, and are theoretically, at least, a reward for his efficiency and care.

1913.

Number Agencies.	Loss, per cent.	Premiums.	Losses.	Commissions at 17½ 12½x12½—30		Per cent. of Com. Con.	Average loss ratio of class.	Per cent. of class premium to total premiums.	Per cent. of agencies to total agencies.
235	No losses	\$126,387	.....	\$22,117 62	\$26,856 35	21.24	.....	.0892	42.58
144	0-20	446,687	\$34,850	78,170 22	90,564 73	20.28	.085	.3153	26.06
44	20-40	267,138	77,687	46,749 15	47,055 95	17.60	.2905	.1885	07.96
18	40-50	108,196	45,382	18,069 30	18,262 65	15.76	.4392	.0728	03.25
20	50-60	178,809	98,041	31,256 57	25,699 28	14.36	.5489	.1260	03.62
13	60-70	97,817	64,049	17,080 47	12,673 73	12.98	.6582	.0687	02.35
78	Over 70	197,001	300,134	34,475 17	24,625 12	12.50	1.5216	.1890	14.11
552	.. . . .	\$1416,335	\$620,093	\$247,858 50	\$243,737 81	17.21	.....	.....	.....

Loss Ratio, 43.77.

1915.

339	No losses	\$160,681	.....	\$28,119 17	\$34,144 70	21.24	.....	.104	49.83
121	0-20	427,444	\$39,770	74,802 70	85,860 60	20.00	.093	.27	17.78
48	20-40	244,928	68,577	42,862 40	43,475 07	17.78	.28	.158	07.06
20	40-50	79,164	35,374	13,853 70	12,400 60	15.62	.447	.055	02.94
16	50-60	89,104	49,040	15,593 20	12,804 60	14.34	.55	.058	02.35
16	60-70	96,718	62,683	17,275 65	13,142 20	13.27	.685	.064	02.35
117	Over 70	447,006	545,220	78,226 05	55,875 75	12.50	1.219	.283	17.19
677	.. . . .	\$1547,045	\$900,664	\$270,732 87	\$257,708 52	16.65	.....	.....	.....

Loss Ratio, 51.72.

The above is taken from the figures of 59 companies operating in North Carolina, as furnished to J. R. Young, Insurance Commissioner.

Commissioner McMaster, of South Carolina, discussed the matter of contingent commissions incidentally and reviewed at length insurance conditions in his State and the incidents connected therewith.

There being no further business before the Committee on Laws and Legislation, the Committee to Draft a Uniform Fire Insurance Policy was called to order with Commissioner Cleary, of Wisconsin, in the chair.

MEMORANDUM OF PROCEEDINGS OF COMMITTEE TO DRAFT UNIFORM FIRE INSURANCE POLICY.

Mr. Albert Blauvelt, of Chicago, addressed the Committee, and the following by Mr. Blauvelt is inserted as covering his remarks:

Mr. Chairman and Members of the Special Committee on Uniform Fire Insurance Policy:

The general public has on record several comprehensive reports on our national fire waste, by legislative committees of New York, Wisconsin, Illinois and other States, and also by various State Insurance Departments.

All these public reports are in harmony and acceptable to all students and show with great emphasis three things: that our United States fire waste is very excessive as related to our wealth, that it is more largely due to fixed charges than to the loss of property burned, and that property does not have an inherent rate of mortality or fire loss but, on the contrary, burns from our own human indifference and carelessness.

These State papers and the facts on which they are based have attracted much attention; clean up campaigns, fire prevention clubs, city inspection systems and so on, have been active for a number of years. Yet our frequency of fire per capita constantly increases, showing a gain of about fourteen per cent. during the past five years, particularly in the better informed cities, and stands today at nearly quadruple the per capita frequency of the day of the youth of most men in this audience.

Against this, apologists point out that the fire cost per fire is less than in those earlier years, but this seeming offset is not a true one because it is arrived at by a disproportionate increase of fixed charges for fire departments, sprinklers, patrols, signals, etc.

These untoward circumstances lead to a question as to whether our entire system of fire insurance is not at fault. You are aware that some of the State reports declare that the security of insurance promotes indifference to fire hazards.

The speaker believes that our whole fire insurance plan is indeed a wrong one, and, in sympathy, not in criticism, ventures to question the morality, the legal consistency, and the economic merit of the usual or standard policy form as legalized by our several sovereign States.

In support of this feeling, attention is called to the fact that our present system brings more people into needless and wasteful dealings than otherwise. This because of the well known fact that by far the greater number of fire loss claims are well within the ability of the claimants to bear as a proper part of a self-reliant citizenship.

The speaker believes that the policy form should not as now cover losses of no hardship, and ventures to say that were it possible for all losses to be small, all property insurance would soon be condemned on economic grounds, because of the well known excessive expense and frequent overpayments attendant upon small losses.

Surely where fate does not impose a hardship a sovereign State has no economic ground on which to countenance a wager system.

A second reason for skepticism as to the standard fire policy is that it leaves wide open an inconsistent moral latitude. The moral intent of the State in drafting a wager contract at all, is doubtless against mere gambling, and limited to a desire to countenance a

wager only when needed to safeguard against harmful fear of or loss by fire.

Our practice, rightly enough, is to permit the property owner to judge how much insurance he needs and to elect to insure for less than his burnable values, but in so doing the property owner necessarily waives as to the shortage, the very plea of necessity for protection under which the State permits a wager contract. How, then, can the State, except by moral stultification, later enforce the collection of loss within the amount so waived?

A third point is that our standard fire form, because most losses are preventable, most usually operates against the legal principle that any contract is contrary to public policy in so far as it acts to wholly relieve the holder from penalty of his or his servants' carelessness.

Thus the standard policy fails to recognize the many expressions to be found in State insurance reports emphasizing that carelessness underlies nearly all of our fire waste and that a plan is needed to make this indifference felt "at source."

That the questions just raised respecting our standard fire policy are well taken, and that there is a direct connection between so faulty a contract, and our excessive fire loss and yet more excessive fixed charges, is a belief that is gaining converts.

Were the evil limited to our annual fire waste greater than our wheat crop, the speaker would not address you. My anxiety is that of the engineer, who, in common with many present, knows that our cities are subject to conflagration from within and from without, and, further, knows that the adding on of costly extinguishing agents does not mathematically offset the increasing frequency of fire per capita. The plain arithmetic of the constant increase of city congestion and constant increase of fire per capita point directly to eventual conflagration disasters of the wrecking magnitude forecast in our State reports.

Returning to the policy form: it recompenses innumerable small losses, which, if uninsured, would work no hardship to the policy holders, which class of loss lies behind about one-third of the property loss; and, what is not so well known, and is four times as important, also creates about two-thirds of the huge fixed charges borne by the public at large.

Any protest against this state of affairs is met by the statement that such conditions are unavoidable and necessary under the allegation of the policy holders respecting their "insurable interest."

This the speaker flatly denies, and, for example, would say that the owners of this hotel in which we are met have not the right to define the terms under which they may cover their admitted "insurable interest," and that such right comes under the "insurable interest" of the general public who support all property and pay the huge fixed charges for its protection.

In short, all insurable property carries a dual "insurable interest," the private interest as furnishing an incentive to insure, and the public interest as holding the right to define the terms.

Time forbids much discussion of the "Public Insurable Interest."

The speaker will gladly mail a reprint from the Journal of Political Economy on that theme to any commissioner who may care to read it, and makes here but one quotation:

"Every citizen has an insurable interest in every piece of burnable property in the country, regardless of actual legal ownership. This is true because every fire and every fire risk adds its quota, however small, to the maintenance of high insurance rates, high fire department charges, and heavy administrative expenses. These fixed charges are borne by the whole community. Beyond this,

however, betterment of fire insurance is vitally concerned with the stability of industrial society. How far-reaching this relation is may not be generally realized. Insurance furnishes a large part of the confidence so essential to the conduct of the great credit business of every modern nation, its utility is greatest in sustaining the ninety-nine who do not have a fire, as well as great in saving from ruin the one who has a disastrous fire. Without it men would become unnerved and would shrink from assuming the responsibilities of business. We are all, then, partners, because we as a community can not forego initiative and enterprise in one another.

"The public insurable interest in any burnable property is greatest in the event of total loss, for a total loss or a fear of total loss goes farthest to weaken or unnerve the owner. In proportion as this loss or fear of loss is reduced, just so far is the public insurable interest diminished. A fear or a loss so small as neither seriously to unnerve nor to disable the owner is beyond the sphere of public insurable interest. For at that point where a man's disadvantage of fate comes within his reasonable ability to bear, the public welfare demands that the individual shoulder his loss himself. It is one of those hardships endurance of which makes for self-reliant citizenship.

"Fire insurance now has no guide, no basic law by which to grant always an insurance ample enough to guard the public against the individual becoming a weakened member of the community; and also reciprocally to require of the individual that he carry an uninsured and inevitable share of the risk large enough to be wholesome and reasonably punitive against indifference toward our public fire waste."

Your Convention doubtless has not the power to early invert the standard policy form which we have inherited, so that after determination of sound values in usual course the indemnity shall apply solely from the top values downward in parallel with the public interest, but in what direction steps may be taken toward firmer ground than the quicksands we now labor in, is certainly germane to the deliberations of your organization.

The speaker submits that our present practice of merely ratifying the trend of private interest as to wager contracts against fire must fall, and that a sound public policy toward lessening our fire waste must eventually base upon the public insurable interest.

ALBERT BLAUVELT.

N. C. I. C., St. Louis Meeting, April 17, 1916.

Mr. H. L. Ekern, ex-Insurance Commissioner of Wisconsin, discussed the matter in part as follows:

"I don't believe we can discuss a more important subject than this problem of fire waste. In 90 cases out of 100—perhaps 95—there is an actual profit to the policy holder who has the fire. I believe that the practical way to get at this proposition is to put a stop at the point where you will begin to pay fire losses. In other words, provide that the company shall be liable for any excess of any loss above 5% of any amount of insurance on any property. Let the owner bear the first part himself. I am not suggesting that this shall be compulsory with the property owner, but when a man takes out a fire insurance policy from the company, make him bear the first 5% loss, and then permit a rider to be attached to the policy to wipe out that exception, if the insured wants to have that rider.

"Were this 5% clause put into the policy, every rate in the United States would be reduced 15% the same day and the companies would make a good deal more money than ever in the past.

"I would add the clause: 'In consideration of the increase of the rate on this policy from \$— to \$—, the company shall pay the first part of each loss, thereby waiving the right of the policyholder to pay the first part, etc.'"

Commissioner Phillips, of New York: We will take this subject up in December at our meeting in New York. If we can agree to some form at our December meeting, then it could be presented to the Legislature at the opening of next year. The State of New York will adopt some policy at the next Legislature. I believe that the State of New York is in accord with this new policy.

Commissioner Young, of North Carolina, stated that the new policy form had been adopted in North Carolina and that he considered it better than the old New York standard policy form.

Commissioner Hardison, of Massachusetts, called attention to the different methods of appraisal in the new policy form compared to the old in respect to suits that might arise thereunder.

The Committee then adjourned and the Convention reassembled.

It was moved and carried that the Convention meet tomorrow morning at 9:30 in executive session.

The Convention then adjourned.

SECOND DAY.

The Convention was called to order at 9:30 a. m. by President Mansfield.

A telegram was read announcing the death of Hon. Julian Sonntag, Vice-President West Coast San Francisco Life Insurance Company, San Francisco, California.

The Secretary also read a letter from Commissioner Fishback of the State of Washington expressing his views in respect to the various problems pertaining to fraternal insurance. The letter was referred to the appropriate committee.

The Convention then took a recess, and the Committee on Assets of Insurance Companies met, Chairman Merrill in the chair.

MEMORANDUM OF PROCEEDINGS OF COMMITTEE ON ASSETS OF INSURANCE COMPANIES.

Matters regarding real estate investment of insurance companies and bank deposits held by insurance companies were considered, and it was moved and seconded that these matters be referred to a sub-committee of three, of which the Chairman of the Committee be made Chairman. The motion was carried and the members appointed on this sub-committee were:

Robert J. Merrill, of New Hampshire.

Guy W. Bailey, Vermont.

F. H. Hardison, Massachusetts.

The committee then adjourned.

UNAUTHORIZED INSURANCE.

The Committee on Unauthorized Insurance then met, Commissioner Works, of Minnesota, in the chair.

The Chairman: Unauthorized insurance is one of the most trying exasperating difficulties we have in Minnesota. Not very long ago I discovered a large concern which had some 20 policies and six were in companies which had no right to do business in the State. The whole thing had been brokered from Chicago. Many large concerns do not take the pains to ascertain whether a company is qualified to do business in any of our States. It would seem that something might be done along the line of a bill which would automatically void a policy placed with unauthorized parties. I am convinced that some drastic measure is necessary to keep down this unauthorized deal.

Commissioner Winship, of Michigan: Unauthorized insurance has no standing in court. Our laws properly construed show that it has no standing in the courts of Michigan.

Commissioner Young, of North Carolina: The matter of unauthorized insurance is an everlasting proposition. I came to the conclusion two or three years ago that the best method would be to get the United States Government, through our Postoffice Department, to make a ruling that where a company was operating in a territory where it was unlicensed that it would be *prima facie* evidence that they were using the mails to defraud. This would place the burden of showing the solvency of a company and its right to do business in a State upon the company rather than to require, as now, for the people to prove the negative. The attorney of the Postoffice Department promised to take this matter under consideration to see if they could go that far. If we can get that we will come nearer solving this proposition than in any other way.

Commissioner McMaster, of South Carolina: There is a good deal of unauthorized insurance placed in South Carolina. Have we dealt fairly with our citizens with respect to unauthorized insurance? I have become inclined to favor State laws which would recognize in its fulness the clause in the Constitution of the United States permitting citizens of one State to make contracts in any other State. Several years ago our Legislature passed a law facilitating the means whereby citizens of our State could place insurance in companies of other States and have the same adjusted. At the last session of the Legislature a brokerage law was passed with the same intent.

Commissioner Dunbar, of Tennessee: We have a law similar to that of South Carolina. A box factory in our city could not get an authorized policy. A broker got a policy for them. They asked him what they would get out of it if they had a fire. The broker said he did not know, that that was the best he could do. They had a fire and brought suit against the agent and the Supreme Court held this agent liable for that loss. I am fighting unauthorized insurance all I know how. I have no regard for a contract that cannot be enforced by law.

The Committee then adjourned and the Committee on Examinations met in executive session, Commissioner James R. Young, of North Carolina, in the chair.

COMMITTEE ON EXAMINATIONS.

The Committee considered various matters.

The following letter which had been sent out by Commissioner Young, Chairman of the Committee, was made a part of the record :

NATIONAL CONVENTION OF INSURANCE COMMISSIONERS.

Committee on Examinations.

James R. Young, Chairman, North Carolina.	
F. H. Hardison, Massachusetts.	T. M. Henry, Mississippi.
Guy W. Bailey, Vermont.	W. C. Taylor, North Dakota.
Joseph Button, Virginia.	W. B. Eastham, Nebraska.
Jesse S. Phillips, New York.	Frank Taggart, Ohio.
Rufus M. Potts, Illinois.	Walter K. Chorn, Missouri.
Robert B. Forsythe, Wyoming.	

Raleigh, N. C., December 15, 1915.

My Dear Commissioner:

In accordance with the direction of the Committee on Examinations, the members of our convention, sitting with them recently in New York, I desire to lay before you for consideration the work of the Committee on Examinations, its objects and the manner in which it is proposed to be conducted. It is worthy of your special consideration and co-operation and, in my opinion, means as much for the success and general approval of the work of the Insurance Commissioners as any other work undertaken by our convention.

1. The convention at its meeting at Colorado Springs in 1909 appointed a special committee to look into and undertake to formulate the work of examinations. I need not go into the history or reasons for this course, as it is well known that it was largely because of the reflections cast upon the work of examinations as they were being conducted in some parts of the country. At the convention in Mobile in 1910 the Committee on Examinations was made a permanent committee of the convention and an effort was made to systematize the work and put it upon such a basis as would meet with the hearty approval and co-operation of each commissioner and insure uniformity and efficiency.

2. Of course it must be borne in mind that the Committee on Examinations as such has no power to make examinations of companies. The legal right to do so is lodged in the different departments under the statutes of their several States. The work of the committee is to bring about, in accordance with the wishes of the commissioners composing the convention, a uniform, regular and systematic examination of all companies, associations and societies at the least cost to them, but thorough and satisfactory to the supervising officials.

3. The object of the work of the committee is, first, to get such examinations as will be satisfactory to the different departments, and, in fact, to all of them, and, second, to lessen the cost and worry to the companies incident to frequent examinations, and especially those that amount to nothing more than a mere auditing or casual examination of the books. Improvement in this respect would help to do away with the aspersion that had been cast upon the examination work of the insurance commissioners because of the manner in which many examinations have been conducted.

4. It is desired that each examination shall include not only the financial statement but also a statement of the general conditions and methods under which the business of the company examined is conducted. A mere audit of the books of a company is not all that is desired.

5. The committee urges the supervising official of each State to see that the examinations of the companies whose home or head office is located in his State is kept up according to the different laws, and no company allowed to run indefinitely without a proper examination into its condition, methods, etc. The committee also asks that copies of all examinations shall be filed with its chairman, those made under the direction of the committee, as well as all examinations made by the individual departments, either separately or in conjunction with others. The object of this is to have in the office of the chairman a copy of each and every examination so that he may be in a position, not only to know when the last examination of any company, association or society was made, but also when it is deemed advisable to furnish copy of the same to any commissioner for his information. The result of this work so far has been that there are now on file with the chairman several hundred, possibly a thousand copies of the reports of examinations.

6. I am enclosing you herein, and invite to your careful consideration, the letter issued by the committee, and also copy of resolution adopted in regard to the manner in which the work should be done. Kindly note the suggestions in the letter as well as the resolution. I am also enclosing circular sent out by the committee dated October 4, 1910, and invite your attention to the statements therein.

7. The work of the committee is certainly a most important one and can be made effective only with the hearty co-operation of all the members of our convention. The chairman of the committee realizes perhaps more than any of the commissioners the amount of work as well as the different things that arise in the work, and feels that in his endeavor to discharge the duties as chairman he is entitled to the consideration and aid of his fellow commissioners. Only his firm conviction as to what the work of the committee means to the general work of insurance supervision makes him willing to undertake the work with its vexations and endeavor to make it a success.

The rule of the committee of the convention has been after the selection of the departments to undertake the work to refrain from interfering in any way with the work of the several departments on the examinations or to in any way suggest to them the use of any particular actuary or examiner.

8. On receipt of this circular and other data each supervising official is asked to inform the chairman of this committee: 1. Of his proposed co-operation in the work. 2. Of his willingness to join in committee examinations. 3. Whether he will use men connected with his department as examiners or special men employed for the purpose. 4. The proposed charges of his examiners and the provision of his law upon the subject. 5. To make any suggestions in regard to the work of the committee and its methods. 6. To call to the attention of the committee any examinations desired or thought to be necessary.

Very truly yours,

JAMES R. YOUNG, Chairman.

The following resolution was offered by Commissioner Young:

Resolved, That a committee of five be appointed, of which the President of the Convention shall be chairman, to investigate the matter of the increase of the capital stock of the Union Central Life Insurance Company from \$500,000.00 to \$2,500,000.00 and report to the Convention at its September meeting whether this increase violates the rights or trespasses upon the equities of the policyholders of said company, and make such recommendations as it may deem wise in view of the facts that may be developed by the investigation.

The resolution was adopted.

The Committee then adjourned and the Convention met.

THE CONVENTION MEETS.

Commissioner Cleary, of Wisconsin, introduced the following resolutions:

Whereas, the health and accident insurance companies are performing a great public and social service by providing indemnity for those who are least able to bear the loss occasioned by accident or disability, and

Whereas, discredit is cast upon this line of insurance because of the fact that many irresponsible individuals and organized companies enter upon this field of insurance with promises that are impossible of fulfillment at the rate of premium charged, and

Whereas, departments having supervision over this branch of insurance find great difficulty in handling claims that largely grow out of the fact that the policy issued is indefinite and uncertain in many of its provisions and lends itself to misrepresentation on the part of unscrupulous solicitors, and

Whereas, sufficient experience is believed to have been had and the courts have passed upon many of the questions that are involved in this field of insurance, making it possible to standardize the contract providing for indemnity on account of sickness or accident; therefore, be it

Resolved, That the Committee on Laws and Legislation be instructed to investigate the subject of a standard form of policy or an extension of the standard provision law, and to report with conclusions in the form of a bill to the next meeting of this Convention.

Whereas, the policyholders in life insurance companies suffer great loss through lapses, and in view of the fact that no solution of the problem of preventing lapses has yet been discovered by those engaged in the writing of life insurance, and

Whereas, certain companies in this field of insurance have attained marked success in perpetuating and continuing in force policies written; therefore, be it

Resolved, That the Committee on Laws and Legislation be instructed to study the question of lapses and means of reducing the claims, waste, and loss to policyholders occasioned thereby.

Be it further resolved, That particular attention be given by such committee to the influence of policy loans upon lapses, and also that attention be given to the influence of excessive selling to persons who are unable to bear the burden of premium payments to

the extent that they have assumed, and also to such other phases of this situation as may suggest themselves to such committee.

The resolutions were adopted and referred to the Committee on Laws and Legislation.

Commissioner Dunbar, of Tennessee, offered the following resolution:

Resolved, That the Committee on Laws and Legislation be required to investigate persons, firms or corporations contracting to furnish citizens information in regard to insurance, the committee to report to the next meeting of this Convention.

The resolution was adopted and referred to the Committee on Laws and Legislation.

The Convention then took a recess.

AFTERNOON SESSION.

The Convention was called to order at 2 p. m. by President Mansfield.

Mr. Phillips, the Chairman of the Committee on Laws and Legislation, appointed on the resolution offered by Mr. Dunbar the following sub-committee:

William F. Dunbar, Tennessee.

James R. Young, North Carolina.

Walter K. Chorn, Missouri.

Commissioner Merrill, of New Hampshire, Chairman Committee on Assets of Insurance Companies, submitted the following report:

Report of Committee on Assets of Insurance Companies.

The matters of real estate investments and certificates of deposit referred to the committee at the December meeting of the Convention on motion of Commissioner Dunbar, have been referred to a sub-committee consisting of the Commissioners of New Hampshire, Massachusetts and Vermont for investigation and report.

The sub-committee to which was referred the question of allowing fraternal orders to take credit for the present value of interest earnings in excess of the rate assumed for purposes of valuation has reported progress and asked for further time in which to consider the subject and make its report.

ROBERT J. MERRILL,
Chairman.

The report was adopted and further time granted.

Commissioner Harper, of Colorado, presented the following resolution:

Whereas the present system of annual reports by the several States results in much duplication of information, much thereof being so incomplete as to be of inferior value, and that at a large expense, and

Whereas a system should be adopted whereby much more complete and valuable information shall be conveyed at no increased cost, if not a reduction thereof;

4-I. P.

Therefore be it resolved that this question be referred to the Committee on Publicity and Conservation to report thereon at the September meeting.

The resolution was adopted and referred to the Committee on Publicity and Conservation.

Commissioner Works, of Minnesota: Some few days before the meeting of this Convention one of the large agencies in the northwest gave me a draft of a report of a Legislative Committee to be presented at this meeting with reference to the Oregon Multiple Agency, with a letter accompanying it, stating that this shall be presented at this Convention. I have a draft of the resolution, but have waited, expecting some one else would bring it up. I think we all agree that one of the difficulties in the insurance field is due to the multiple agency system. It seems to me that same should be taken under consideration. I would like to inquire if Mr. Wells has anything to present on this subject at this time?

Commissioner Wells had nothing to report and it was decided to hold the matter in abeyance for the present.

Commissioner English, of Iowa: You will recall the action of the Convention in 1914 in regard to coverage of automobiles. There was some division of opinion at this Convention. It would seem that a few of the States have fire companies who have policies with complete coverage. The State of Iowa has a law that does not permit fire companies to have complete coverage. I think the law is similar to the New York law. The larger companies operating in New York have made some arrangements with casualty companies whereby they may issue duplex policies. During the past year it has come to my notice that several of the larger fire companies have amended articles of incorporation permitting complete coverage. It so happens that some of these have large agency plants in our State. I understand since coming here that the Wisconsin Department and the New York Department have had some exchange on this subject and I would like to hear from those two departments as to how the matter was settled.

Deputy Superintendent Henry D. Appleton of New York: Among the larger fire companies operating in New York are Wisconsin companies. They have had a limited automobile underwriting power. They were desirous of securing the full automobile coverage given a New York fire company, that is, all coverage incident to the use of automobiles, except accident to the person. To accomplish this result they had to amend their charters under the new Wisconsin law. They could not secure the desired automobile coverage in any other way. They forwarded their amended charters to our department, when we discovered that under such amended charters they were authorized to assume any kind of insurance that could be written; in other words, to write multiple lines. They were advised that no such powers could be secured by a company organizing under the New York Insurance Law; that we considered such unlimited writings by a single corporation to be a most dangerous innovation. These

companies agreed to take any action our department would recommend, and, in consequence, their boards of directors adopted resolutions wherein they recite the powers they can exercise at any and all points, confining such powers to the limiting language contained in our Section 110. We forwarded the amended charters to our Attorney-General, with accompanying certificates as to the limited powers to be exercised, certified to by Commissioner Cleary of Wisconsin, showing the filing in the Wisconsin department of the resolutions adopted by the respective boards of directors and such documents were approved by the Attorney-General.

Commissioner Cleary, of Wisconsin: I wish to say in regard to the multiple line feature that addition was made to one of our statutes which authorized a company to write any kind of insurance. Under this new amendment a company may write any or all of these lines, but they must maintain separate reserves. Our statutes specifically prohibit the writing in one policy of more than one kind of insurance, except the automobile or vehicle line.

Deputy Superintendent Henry D. Appleton of New York: Under the New York law, a casualty company as such can write a policy, assuming every hazard pertaining to the use of automobiles, except the fire hazard. A fire company can write a policy, assuming every hazard pertaining to the use of automobiles, except insurance against loss by reason of bodily injury to the person. If there is any reason for the fire company being privileged to cover the person, there is just as good reason for the casualty company being permitted to cover the fire hazard. Certain insurance covering the person by a casualty company is safeguarded by a special statutory loss reserve. There is no such reserve in the insurance law relating to fire companies. There is no reason why fire companies desirous of furnishing their customers with full coverage should not make the arrangement which many of such companies already have, namely: entering into a contract with a casualty company so that a full coverage policy may be delivered. These contracts are so drawn as to show the premium charged on account of the liability assumed by each company. I believe the States should adhere to that policy, which limits the business of the fire companies as they are now limited, and the business of the casualty companies as they are now limited. In other words, I believe we should adhere to the present so-called American Classification System.

I would add that a marine company as such, authorized under Article IV of our law, the marine article, can furnish the same automobile insurance coverage as can be furnished by a fire company.

Commissioner McMaster, of South Carolina: The point that has not been clear in my mind is whether marine insurance was intended originally and without statutory provision to cover such a hazard as that of an automobile in the hands of the owner running by its own power.

Mr. Appleton: I do not think it was. Nevertheless, until there was incorporated in our law express reference to automobile insurance, the department held that such insurance could be written by a marine company. Necessarily, a company must be governed by the laws of its own State.

Commissioner Button, of Virginia, stated that a marine company has attempted to provide full coverage for automobiles without complying with the laws governing fire insurance and casualty companies and the Attorney General of Virginia held that such a company was exceeding its powers and it was required to make a deposit in accordance with the laws governing fire and casualty companies.

Commissioner McMaster asked for opinions of members of the Convention upon life companies including disability and accident and health clauses generally in their policies, and also upon accident and health companies including provisions for the payment of benefits on account of death from any cause in their policies.

Commissioner Hardison, of Massachusetts, stated that the Insurance Department of Massachusetts had held that accident and health insurance could not be written in the same policy with life insurance and that the Department had been sustained by the courts of Massachusetts, but that subsequently the Legislature of Massachusetts had passed an Act permitting this to be done.

The Convention took a recess and the Committee on Codification of Rulings met.

CODIFICATION OF RULINGS.

The Committee on Codification of Rulings was called to order, Commissioner Welch, of Oklahoma, in the chair.

Mr. Ekern, ex-Commissioner of Wisconsin, addressed the committee as follows:

The rulings of the different departments, and attempts to adjust these rulings, are sent out monthly by the different departments, a synopsis or digest of the rulings of the different States, the idea being to enable these different departments to follow the rulings of the different States. I would be glad to get the older rulings, as well as the newer ones, because it has developed that there has been very little worked out in the way of definiteness in rulings—there is no set form of rulings in most of the departments. The Railroad Commissions of the different States, and other departments of the different States, have worked out a much better developed system of rulings than have the Insurance Departments, and, of course, the Railroad Commissions go much further in their ruling than the insurance or any other State Departments, but it appears that it would be very valuable if the Insurance Department could go somewhat further than they do at the present time in getting up their rulings in a more definite form. There is one thing that could be done. Nearly all the rulings refer to some specific statute. If the ruling that is gotten out, on the heading, referred to the statute which is affected, or under which it could be classified, it would help in the classification of that ruling in the future. One

method would be to classify these rulings under the particular statute affected, to classify under the different sections affected, or under any uniform statute like the fraternal statute—that is one of the suggestions I wanted to make—a brief statement of the facts on which the ruling is made. If that is done, it is a much more valuable thing for future use than the letters submitted and the replies thereto. Then, to get up some sort of a recommendation of a standard form of ruling, and then the various departments adopt that, as far as they please. I shall be glad, so far as I can, to co-operate and do the necessary clerical work for the committee or the convention without imposing any obligation on any commissioner or on the convention.

Commissioner McMaster, of South Carolina: I move that the Committee on Rulings recommend to the Convention that the Commissioners of the various States co-operate with ex-Commissioner Ekern in the matter of gathering of the rulings of the various departments in order that they may be put in a permanent and substantial form.

The motion was carried.

The Committee then adjourned.

COMMITTEE ON LAWS AND LEGISLATION.

The Committee on Laws and Legislation then met, Superintendent Phillips in the chair.

Superintendent Potts, of Illinois, addressed the Committee on the subject of a uniform policy for live stock insurance. He introduced Mr. Clifford Ireland, President of the Western Live Stock Insurance Company, who addressed the Committee on the question of uniform policy forms for live stock insurance.

Commissioner Young, of North Carolina, moved that a sub-committee be appointed for this purpose.

The motion was carried and the chairman appointed the following committee:

M. J. Cleary, Wisconsin.

J. T. Winship, Michigan.

W. K. Chorn, Missouri.

The Chairman appointed on the Sub-Committee on Mutual Assessment Life Insurance the following:

Emory H. English, Iowa.

Frank Taggart, Ohio.

F. H. McMaster, South Carolina.

Commissioner Cleary, of the Special Committee on Reciprocal Underwriters, reported progress and asked that the committee be continued until the September meeting.

The report was received as information and the committee continued.

The Committee then took under consideration the matter of excess interest earnings for fraternal.

Mr. Piper, as Chairman of the Legislative Committee of the National Fraternal Congress, stated that several members of the Ex-

ecutive Committee of the National Fraternal Congress were present who wished to be heard.

Mr. Miller, President of the National Fraternal Congress, was heard. He stated that there was no division of sentiment in the National Fraternal Congress as to the excess interest; that if excess interest is earned it should be credited.

Mr. Litz spoke from the Committee on Statutory Legislation of the National Fraternal Congress, favoring the proposition.

Mr. Abb Landis, fraternal actuary, spoke in behalf of the proposition.

Mr. Sidney H. Pipe, Actuary of the Independent Order of Foresters, was heard in opposition.

He read a letter from Mr. David Parks Fackler, on behalf of the Knights of Columbus, who opposed the allowance of the excess interest.

Mr. Allison, Actuary of the Rhode Island Department, opposed the allowance of excess interest.

The Committee then adjourned.

THE EXECUTIVE COMMITTEE MEETS.

The Executive Committee met, Chairman Button in the chair.

The Committee took under consideration the matter of whole family protection.

Superintendent Phillips, of New York: There was introduced in our State Legislature in 1915 a bill called Whole Family Protection. This year the same bill was introduced and you gentlemen of the Executive Committee will recall that I addressed a letter to you asking your views on that proposition and it was promptly responded to, which replies were of considerable assistance to me in the efforts of the Department to stop that legislation. The Insurance Committee of the Assembly reported the bill favorably; it was placed on the third reading calendar and unless something happened to it since I left last Thursday night, it is still there. In any event it will not pass both the houses of the Legislature. The one argument I wished to present was that this Convention had not considered the proposition and that we should give it consideration.

The charge was made that the only way to do so would be to have some State pass the law. I think this Convention should seriously consider this proposition; it is a big question; it is a question of importance, and I think should have the consideration of this Convention because it will be a live question I am quite sure next year in New York. They will be there with the same bill, and I think it is of the utmost importance that we have this subject considered by the Convention and that this Convention take some action upon it. I think, however, that we should not go on record as taking any action which could be construed that we favor this proposition or reject it.

The one thing to consider is as to whether it is wise for us to advocate this form of insurance.

Commissioner Merrill, of New Hampshire: I move that a subcommittee of three be appointed by the Chairman of the Executive Committee to confer with a similar committee from the National Fraternal Congress and to report upon the matter of Whole Family Protection at the September Convention.

The motion was carried and the chairman appointed the following committee:

J. T. Winship, Michigan.

Robert J. Merrill, New Hampshire.

James R. Young, North Carolina.

The matter of publishing the proceedings of the Convention, together with the decisions of the courts—United States and State—on insurance laws in book form containing advertisements, was presented to the Committee by Mr. H. J. Meyers.

Commissioner Mansfield, of Connecticut: I move that we decline to accept the proposition, with thanks.

The motion was carried.

Chairman Button announced in reference to the date of the meeting of the Convention in September that he had had correspondence with the Executive Committee of the National Association of Agents, that the local agents had agreed to meet on the 11th, the International Agents on the 18th, and suggested that the National Convention of Insurance Commissioners meet in Richmond on the 26th of September.

Commissioner Young, of North Carolina, moved that September 26, 27, 28 and 29 be fixed as the dates of the meeting of the National Convention of Insurance Commissioners at Richmond, Va.

It was finally resolved that the meeting be held on Wednesday, Thursday, Friday and Saturday, September 27th, 28th, 29th and 30th.

The Secretary announced that he would correspond with the members of the Convention and ask for suggestions as to subjects and nominations for those who should be requested to write on the subject.

The Chairman brought to the attention of the Committee the following communications:

San Francisco, Cal., April 15, 1916.

President National Convention Insurance Commissioners, Planters' Hotel, St. Louis, Mo.:

On behalf of National Association of Employing Lithographers of United States I enter a vigorous protest against action of insurance companies in exceeding their charter rights by maintaining a joint lithographic establishment in Chicago for their mutual profit.

MAX SCHMIDT,

President National Association of Employing Lithographers.

UNITED TYPOTHETAE AND FRANKLIN CLUBS OF AMERICA.
550 Transportation Building,

Chicago, Ill., April 15, 1916.

President of Insurance Commissioners, Planters' Hotel, St. Louis, Mo.:

Dear Sir: The Executive Council, United Typothetae and Franklin Clubs of America, in session, protests to your organization against the insurance companies maintaining a co-operative printing plant in Chicago for mutual profit. We believe they are exceeding their charter rights.

Very truly yours,
JOS. A. BORDEN,
Secretary.

On motion of Commissioner Mansfield the Secretary was instructed to acknowledge receipt of the communications and the subject was left with the Executive Committee for investigation and later report. The Committee adjourned and the Convention met.

THE CONVENTION MEETS.

The Convention was called to order by President Mansfield.

Commissioner Welch, of the Committee on Codification of Rulings, reported that the work of ex-Commissioner Ekern was endorsed and that the members of the National Convention were requested to co-operate with him.

Superintendent Phillips, of the Committee on Laws and Legislation, reported progress on the various matters referred to his committee.

Commissioner Button, Chairman of the Executive Committee, reported that the Executive Committee had agreed to meet in Richmond, Va., on the 27th, 28th, 29th and 30th of September.

Commissioner Young, of North Carolina, addressed the Convention regarding the examination of the Union Casualty Company's affairs and stated that in his opinion it would not be advisable for the Convention to go on record as treating the examination of all companies by a committee on examinations just as though their examiner were not there. He stated that he believed the Convention should go on record as treating examinations of this character as though they were examinations of their Department; that the examination of The Union Casualty Company shows the great importance and value of the work being done and he believed we should make it as efficient as possible.

Superintendent Taggart, of Ohio, addressed the Convention on this subject, stating that he had had some knowledge of the examination of The Union Casualty Company and had some experience with another company since that time. He stated that on reaching the Department on Monday morning he was met by an attorney who requested him to defer the examination of the Union Casualty Company; that on the preceding Saturday he had received a wire from Commissioner Young asking the Ohio Department to go into the examination of the Union Casualty Company and he immediately

employed an examiner and sent him to Philadelphia; that he was in constant communication with the examiner after he arrived in Philadelphia, was advised of the withdrawal of the examiner from Maryland, also the withdrawal of the examiner of Kentucky. He advised the examiner of Ohio that when any objections were offered he should immediately come home and the license by the Ohio Department would be revoked. He stated that this did not happen for the reason that the company had \$50,000 special deposit. At any rate, he stated that this assisted in bringing about the final results.

Commissioner Winship, of Michigan, addressed the Convention, stating that his experience had been similar to Mr. Taggart's; that he sent his examiner down there on the first appointment and it seemed he was the only fellow that arrived; that he wasted a week waiting for the others to come and, at the end of four weeks, he went again and the others arrived.

Superintendent Potts, of Illinois, explained his experience with the Union Casualty Company.

Commissioner Young, of North Carolina: I move, Mr. President, that the members of this Convention go upon record as treating the examinations made under the direction of the Committee on Examinations as examinations by their departments, and that whenever any company offers any objection during the progress of the examinations and refuses to allow the examination to proceed, without good cause, that then the departments in whose States that company does business shall appoint and treat as their representatives the representatives of the other departments selected to make the examination and act as if said objection or treatment were made to their representatives.

The motion was carried.

The President appointed as a committee on the matter of the Union Central Life the following:

Burton Mansfield, Connecticut;
James R. Young, North Carolina;
F. H. Hardison, Massachusetts;
Joseph Button, Virginia;
Jesse S. Phillips, New York.

The Convention then adjourned.

PROCEEDINGS.

FIRST DAY.

MORNING SESSION.

Jefferson Hotel, Richmond, Va., Sept. 26, 1916.

The forty-seventh annual convention of the National Convention of Insurance Commissioners was called to order in the Palm Room of the Jefferson Hotel, Richmond, Virginia, at ten thirty Tuesday morning by the President, Hon. Burton Mansfield.

The President: The forty-seventh annual convention of the National Convention of Insurance Commissioners is now open. We will first have an address of welcome by his Excellency, the Lieutenant Governor of Virginia, who I am very sure we are all very glad to meet and we shall be delighted to hear his welcome, the Hon. J. Taylor Ellyson. (Applause.)

Hon. J. Taylor Ellyson: As I came up the steps from the lobby a gentleman said to me, "You are up against a bunch of real politicians this morning." I don't know any place where I should feel more at home. I have been the Chairman of the State Democratic Committee and have had some little opportunity to know politics. So if you have the real article here, I am a good judge of it.

On the 4th of July last it was my privilege to preside at a meeting at Virginia Beach and present to the assembled company the Honorable Champ Clarke, the Speaker of the House of Representatives of the United States. He made a very charming address, full of patriotic sentiment, and he said to us, "If you forget all else that I may say to you, remember this: first, that we live in a new and very successful age; second, that America is another word for 'opportunity'; and third, that our entire history has been one of effort of Divine Providence in behalf of the human race."

Captain Robert E. Lee in his recollections of his father, General Lee, says that his father's ideal of life was always to do his duty at whatever cost and to help others to do theirs. It was Phillip Sidney, I think, who once declared that he served best who best loved his service. I think that is a fine sentiment for any organization—he serves best who best loves his service.

I am here this morning because of the absence of his Excellency the Governor. I have a wonderful lot of good luck, for if he had been present I would have been absent. In his absence I have the pleasure of bringing to you the greetings of the "Old Dominion State." We are proud of our commonwealth, so rich in historic interest, so prosperous and happy in her present, yet with such a

bright and hopeful future. I returned from a visit to the seashore a short time ago and found on my desk a little leaflet on which was written "Best days ahead." That represents the condition of Virginia today. As much as we appreciate all that is connected with the lives of the illustrious men it has been the privilege of this commonwealth to contribute to the welfare of the nation, and as much as we enjoy the great prosperity that is seen in every part of the State, yet we believe with it all that the best days are ahead, and as in the State, so in the nation. We have achieved great things in the past and we are proud. And if I may be pardoned for saying so, we have a President of whom the nation is proud. I do not say that in any mere partisan spirit because I believe we should rise above that in the recognition of the good that is in men and the service they have rendered their people.

It was my privilege on one occasion in 1907 to preside over a great meeting at which Governor Hughes of New York and President Wilson of Princeton spoke. Governor Hughes made one of the great speeches which I have heard in my lifetime, and as the time wore on, and it was a very hot and sultry day, I wondered if President Wilson could have the courage to follow it, and had I been more intimate with him and had the occasion been such that he was not my guest, I would have suggested that he postpone his address. But he spoke and he made a most happy talk—one of which any man might be proud. But the speech of Governor Hughes was one of the great speeches to which I have listened. We ought to be proud of men of that sort, and the nation is. We do not think much of our opponents when trying to kill each other, but when the battle is over we take a calmer view. I can say to you as I can say to my child or grandchild with all honesty and sincerity,

"The star spangled banner, long may it wave,
O'er the land of the free and the homes of the brave."

Well, we are very happy to have you. We consider it an honor to have in our presence and within the borders of our commonwealth such an assemblage of men that will gather for this conference. But above all the others we welcome with the greatest heartiness the charming ladies present today, and I want to say to them that I trust their sojourn among us may be happy and that their recollections of Richmond may be among the brightest of their lives and that they may some day return and when they do remember that many an eye will mark their coming.

The President: We now have the pleasure of listening to Hon. George Ainslie, Mayor of Richmond.

Hon. George Ainslie: Mr. President, Ladies and Gentlemen: A friend of mine once said there were two things he could not talk against—one was a circus and the other a dinner bell. I feel, though, that Lieutenant Governor Ellyson made a very successful effort at talking against what seemed to me like a saw mill, though it may

have been some of the guests of the hotel sleeping in those comfortable beds like a log—with a saw going through it.

I was with the Lieutenant Governor when this local man made the remark that we were up against a bunch of rude politicians and I knew that Governor Ellyson would not be at all frightened by that, because he told you he had been the Chairman of the State Democratic Committee for many years and he was also for many years our National Committeeman from Virginia. He told you he was and did not tell you why he is not, in language that you understood. Lieutenant Governor Ellyson is a candidate for Governor in the next election and knowing the Virginia people as he does and believing in their political integrity he announced his candidacy to you modestly by saying, "Best days ahead."

It is a very great honor to represent the City of Richmond in extending to you a welcome upon the assembly of this Convention. I want, Mr. President, to congratulate you and this Convention upon doing just what your colleague Mr. Button said they would do. He said they would meet promptly, and they met promptly—at half past ten. I have often wondered why it is that conventions are so slow assembling. I see before me men and women who have come long distances at a great deal of discomfort and expense to themselves—or somebody else—to get here and having gotten here they seem to come into the meeting much like the small boy goes into the water—they don't seem to want to come after they get here. As I have sat on a great many platforms taking up time I have had to spend in waiting I have given a good deal of attention to why it is people are so slow assembling when they have come here to assemble. And since I have had thirty minutes this morning to read this program—and I had just about time to get through—I finally solved it, Mr. President. I came to the conclusion after four years' experience in the City of Richmond in particular and from what I have read of goings on in other places that probably no people in the world had the infinite capacity to sit down in chairs and let other people talk at them like the American people, but notwithstanding the possession of that capacity there was a disinclination to exercise it that caused the delays in the meetings. In looking over the long programs they would see what they were in for and while, of course, they had come there for that purpose they did not care how long it was before they got in the chair; and I think these people were afraid that if they started in too quickly before the end they would be in the condition of the negro boy who went to call on his sweetheart. This boy was a very ardent lover and he was very small of weight, weighing something like 110 pounds, and was quite black, and his sweetheart weighed 225 pounds and was just a shade or two blacker than he was. He called one evening and about nine o'clock she nestled down on his knees. Towards midnight she snuggled just a little closer and said: "Sweetheart, is you tired?" And ardent lover though he was, he was

also an honest and truthful man, so he said, "Tired? My God Almighty, I've been paralyzed since a quarter to ten!"

They say of us, Mr. President, down in Virginia, that our principal ailment is that we think too much and talk too much about ourselves; that we are overly given to self-contemplation, and some of the irreverent have gone so far as to say we actually remind them of potatoes—the best of us are in the ground. But to show you, Mr. President, that we are modern and not what these people say of us, we actually get compensation out of that, provided it is true. There is in the neighborhood of Richmond a number of lithia water springs. Just down below here is the famous Buffalo Lithia Springs, and between there and Richmond there are a large number of springs that contain more or less lithia, and these waters are sold on the streets. There was an old negro who saw this going on and he would make some money, too, so he got a few bottles and went around to a spring and filled them up and began to sell them. One day a gentleman who knew him came upon him at a spring he particularly patronized just below Hollywood Cemetery. He said, "William, is that the water you sell around here for lithia water?" He said, "Yes, sir." The gentleman said, "Don't you know that spring drains right out of that cemetery?" "Yes, sir," said William, "I know that spring drains right out of the cemetery." "Do you mean to tell me that you are selling that water to people to drink?" "Yes, sir," said the old negro, "I will give you to understand, sir, that the best families of Virginia are buried in those grounds."

Mr. President, Richmond was actually discovered, so far as the English race was concerned, by Captain John Smith and Captain Newport and a few of his other associates. From Jamestown they came up to Richmond, and even in that day Captain John Smith was so much impressed with the city he called it "None Such", and I hope, Mr. President, that when your members have to leave us on Saturday that they will feel that they have been paying a visit to the city that Captain Smith found—"None Such."

We are not spending our time wholly in reflecting upon the past glories and the great characters and reputations of our forebears, but we are doing something for ourselves in Richmond and we hope for others. I think the average man and possibly woman who has not been to Richmond in late years thinks of it rather as a sleepy, rambling old village with a good deal of historic romance to it, and that the people around here are like the Hawaiians who like to sit around and strum on some musical instrument and think they are too good to work and are perfectly satisfied with their past history and their present condition. But that is not true here. We have a city that compares favorably with other cities of its class financially and commercially. We are making and sending out from Richmond \$100,000,000 a year in manufactures. That may not sound large to Commissioners who live in the larger cities, but when a city of 160,000 is manufacturing and sending out \$100,000,000 in new

products every year it cannot be said to be asleep. Richmond is 39th in population in the entire population in the United States and 14th in bank clearings. That statement to you is taken from the government figures and is sufficient to let you know that we are not entirely asleep.

I take a great pleasure in welcoming this Association to Richmond. Particularly is it a pleasure to me to extend to the charming ladies who are present a special welcome to Richmond. I hope, Mr. President, that your conferences will be profitable to yourselves and that your social sessions will be pleasant, and that when you leave Richmond you will leave it with the regret that we shall have at seeing you go, and at some future time we shall have the pleasure of welcoming this Association to this city again. (Applause.)

The President: I am sure, your Honor, that the delay in opening the meeting needs no explanation, for having heard from his Excellency the Lieutenant Governor and his Honor the Mayor, we are perfectly justified in saying that we like to live in anticipation, and we have been most fortunate in listening to the gentlemen and the remarks that they have made.

I have had the pleasure a good many times of spending a portion of the summer in the Warm Springs region in the western part of the Old Dominion State. Colonel Button has told us that the green upon our badge represents a somewhat favorite beverage known not only in the western part but also in other parts of Virginia. I remember he told us we had got to come to Richmond this year if we wished to enjoy it to its full for pretty soon something was going to happen. When I was at the hotel to which I refer several years ago a friend of mine from New York was called by a rap upon the door before he had arisen in the morning and a servant brought him in a glass such as I have described and said, "Compliments of Mr. Smith." Pretty soon Mr. Brown sent up his compliments, and before he got out of bed he had nine upon the mantelpiece. I had not heard at that time that the favorite drink of Virginia was lithia water. But I now see from what Colonel Button has told us that they are about to propose a change of name and hereafter it no doubt will be lithia water.

But, your Excellency, you have said that your Governor has departed. You did not state where. I hope, sir, that without any disrespect to him we may take that as a good omen for you and that it may be the pleasure of the people of Virginia to honor you. That will be an indication that the "best days are ahead," while the Governor may say "the worst is yet to come."

It is a part of the duty of the Vice-President of this Convention to reply to the addresses of welcome, and we are particularly fortunate this morning in having with us one whom we all delight to honor and to whom we all delight to listen. I take great pleasure in presenting to you the Honorable John T. Winship of Michigan and Vice-President of this Association, who will reply to the addresses. (Applause.)

Response to Addresses of Welcome at National Convention of Insurance Commissioners, by John T. Winship, Vice-President.

Mr. President, Your Excellency the Lieutenant-Governor of Virginia, Your Honor the Mayor of Richmond, Ladies and Gentlemen:

When, at the last December meeting of this Convention, held in New York, that genial spirit of sunshine, the distinguished and beloved Commissioner from Virginia, invited this body to hold the present annual meeting in the city of Richmond, there at once arose in the minds of many a question as to the nature of the temperature that might be expected in a Southern clime at this season of the year, and there was some debate upon the proposition; but so eager was the body of the Convention to accede to the wishes of Colonel Button, that it was decided to waive all opinions as to the nature of the temperature and accept the invitation, for we knew that whatever the Fates might have in store for us on that account, it could not be more torrid than the warmth of welcome that would be extended by this generous people, for the hospitality of the Southland, known of all men, is exceptionally exemplified in the chivalry and courtesy of the true Virginian. Your words of welcome have fallen on grateful ears, and though hailing from the Northland myself, but speaking officially for this body, composed of representatives from the East and West, as well as the North and South, we acknowledge with deep gratitude the cordiality of your greeting.

This meeting in Richmond has much of sentiment for me. Two generations of my name were born upon this historic soil, and I esteem it a privilege and an honor to stand in this beautiful temple of entertainment—hallowed by the name of one of the world's greatest benefactors, the man whose ringing appeals for human rights were first made manifest and effective upon American territory, but destined to be the characteristics of good government throughout the world—and pay homage to Virginia genius and patriotism.

It is an uncommon pleasure, too, to realize, while walking the streets and avenues of this beautiful city, if we are in a reflective mood, that every footstep calls to the mind deeds of historic moment. We have come to a State that has given this great Nation many of its most imposing figures, as well as its most important institutions. From the early history of the Virginia colony, or London Council, we gather the story of hardship and adventure alike startling and thrilling. The seed of opposition to oppression was first sown here, and it was planted in fertile soil. Here first sprang into being the spirit that was to nurture ideas of freedom and independent government, based upon the consent of the governed. 'Tis here we find the first step taken towards nationalizing the country. 'Twas here, too, or under the guiding hand of a Virginian, that the Nation, when formed, made its first great expansion in the Louisiana Purchase. As one of her gifted writers of the present day has said, she was the first commonwealth to spring from England's loins, and she has been the mother of many commonwealths herself.

It is a matter of coincidence that just one hundred years before her greatest son, Washington, led the most momentous rebellion of all history, another son, Nathaniel Bacon, stirred up an insurrection based upon the unconquerable yearning of the people of the Old Dominion for self-government. It has been a matter of comment among historians, both the early chroniclers as well as contemporary writers, that this people, aristocratic in tendencies,

and given to class distinction, as it were, were imbued with the spirit of a republican form of government from the first. In education, too, this cultivated and virile people were pioneers. William and Mary College, established in 1698, found only Harvard its predecessor, and the University of Virginia, monument to the name of Jefferson, was the first actual and real university, as contrasted with a college established in this country.

But one might go on at considerable length in extolling the virtues and achievements of the Old Dominion. Her star looms high in the firmament of our National organism, and recital would be considered superfluous, but I cannot refrain from pointing out that this State is peculiarly distinguished for the commanding brilliancy of her noted sons in so many avenues of governmental endeavor.

For the most conspicuous exponent of the combination of statesmanship and military genius in the history of our Nation, she can point with enviable pride to her greatest son—the beloved Washington. For the most commanding figure of wisdom in the science of government, and the most noted champion of human rights, she can point to her other great son, one whom Samuel Adams, Massachusetts' great contribution to the Revolutionary period, characterized as wielding the most graceful pen in America—whose most notable achievement is exemplified in that immortal document, the Declaration of Independence. For the greatest and most elaborate expounder of the Constitution of our Nation, she can point to another son, Mr. Madison. 'Twas a Virginian, too, who gave to the Nation the Monroe Doctrine, which has marked our international course with relation to the governments of the Western hemisphere from that day to this. For the man who did as much as any one else to establish the Constitution upon such a stable bases that even the shock of civil war could not destroy it, she can point to the great jurist—Marshall. For the man whose fiery eloquence stirred the hearts of the people as no other man of the pre-Revolutionary period, she can point to that picturesque figure—Patrick Henry, and so on from that time down through the vista of succeeding generations, Virginia has held her place in our National life.

But, Governor Ellyson and Mayor Ainslee, while we enjoy our stay in this interesting city, we are here, however, primarily for work, and the interchange of opinions and experiences for the further betterment of our respective departments. This body is unlike any other voluntary association of officials of which I have any knowledge. We have our associations of Attorneys General, our Leagues of Municipalities, our Conventions of State Auditors, and a dozen similar organizations in this country, but in none of them is the action of the body itself so intimately connected with the administration of the component departments. Settled as it seems to be by various decisions of the Supreme Court of the United States, that insurance is an institution for State supervision, it is absolutely necessary that a fair degree of uniformity of administration be followed, and that a comity be maintained in order that the insuring organizations may conduct their business in forty-eight States with some degree of practicality. As my distinguished friend, Commissioner Hardison of Massachusetts, has said in one of his reports, this body may be termed the great university to which each of us brings his problems for discussion and possible solution. Viewed in this sense, then, this is a working body, and we trust that the Richmond Convention will be marked by information and action alike profitable to the organi-

zations we supervise and the constituents we serve. To the man of ambition, to the one imbued with conscientious endeavor, work is always a joy, and it is all the more so when performed in a setting of pleasant surroundings, and for furnishing these we thank you, Governor Ellyam, Mayor Ainslee and Colonel Butler, and, through you, we thank the people you represent.

Mr. James, of Utah: Lest we forget, I move at this time that we extend to the gentlemen to whom we have listened this morning our hearty vote of thanks.

The motion was adopted.

The President: However true that remark which the gentleman made to the gentleman coming up-stairs, they must be convinced that that does not tell the whole story after they have listened to the gentleman from Michigan. (Applause.)

The President: The next thing on the program, gentlemen, is the roll call of States. As each State is called the representative should give his name, his position, and the whole representation of the State he represents.

The Secretary called the roll of States and the following States answered to the roll call:

Colorado—E. R. Harper, Commissioner of Insurance; Mrs. D. M. Rolph, Deputy.

Connecticut—Burton Mansfield, Insurance Commissioner; H. Pier-son Hammond, Actuary.

District of Columbia—C. F. Nesbit, Superintendent of Insurance.

Florida—J. C. Lunig, State Treasurer.

Illinois—Rufus M. Potts, Insurance Superintendent; James Fairlie, Actuary.

Iowa—Emory H. English, Commissioner of Insurance.

Kansas—Carey J. Wilson, Superintendent of Insurance.

Kentucky—C. F. Thomas, Insurance Commissioner; C. B. Bullock, Actuary.

Maryland—Wm. M. Shehan, Insurance Commissioner.

Massachusetts—F. H. Hardison, Insurance Commissioner; H. L. Peabody, Deputy.

Michigan—John T. Winship, Commissioner of Insurance.

Minnesota—S. D. Works, Commissioner of Insurance; H. L. Phillips, Actuary.

Mississippi—T. M. Henry, Insurance Commissioner; W. R. Halliday, Actuary.

Missouri—W. K. Chorn, Superintendent Insurance Department.

Nebraska—W. B. Eastham, Insurance Commissioner.

New Hampshire—Robert J. Merrill, Insurance Commissioner.

New Jersey—Geo. M. LaMonte, Commissioner Banking and Insurance.

New York—Jesse S. Phillips, Superintendent of Insurance; H. D. Appleton, Deputy Superintendent; Leroy A. Lincoln, Counsel.

North Carolina—James R. Young, Insurance Commissioner; W. J. Cameron, Actuary.

North Dakota—W. C. Taylor, Commissioner of Insurance.

Ohio—Frank Taggart, Superintendent of Insurance.

Pennsylvania—S. W. McCulloch, Deputy.

Rhode Island—Felix Hebert, Deputy.

South Carolina—F. H. McMaster, Insurance Commissioner; J. R. Fulmer, Actuary.

South Dakota—W. H. O'Brien, Insurance Commissioner.

Tennessee—Wm. F. Dunbar, Commissioner of Insurance; W. R. Halliday, Actuary.

Texas—B. Werkenthin, Actuary.

Utah—John James, Commissioner of Insurance.

Vermont—W. F. Scott, Insurance Commissioner.

Virginia—Joseph Button, Commissioner of Insurance.

West Virginia—J. S. Darst, Auditor and *ex-officio* Insurance Commissioner.

Wisconsin—M. J. Cleary, Commissioner of Insurance.

Wyoming—Robt. B. Forsyth, State Auditor; D. M. Forsyth, Assistant Deputy.

The President: The next thing upon the program is the address of the President. (Applause.)

PRESIDENT'S ADDRESS.

Fellow Members of the Convention, Ladies and Gentlemen:

There are several matters, to which I will only briefly refer, before taking up my main subject. These matters are of such a character as to suggest the possibility, after due consideration, of joint action on the part of the various departments. They are not necessarily new ones. We have talked some of them over before.

Cannot we eliminate so many different State reports and have one good one issued by all the States? Of course, there are many difficulties in the way which immediately present themselves. The fact that many companies are doing business in only one or, at the most, in only a few States, is an obstacle, and the mere suggestion of such a procedure raises also the same old story of State independence and supremacy, backed up oftentimes by the authority of a State printer whose legal position may be unassailable. But as we issue a uniform blank and publish a book of valuations applicable everywhere, cannot we devise some plan whereby one report shall be made to do service for the forty, more or less, now published?

Cannot we make our fees more nearly uniform and find a more nearly common basis for taxation, to which, of course, different rates might have to be applied?

It is quite possible, as some of you have already suggested, that a uniform method of examination of the insurance companies might be instituted, to be conducted in the name and on behalf of the whole body of supervising officials. Should such a question seriously come up for our deliberation, we ought to consider at the same time whether it would not be better to adhere more closely to the course now supposed to be followed, whereby each State makes its own examinations and the results thereof become the

common property of all the States, by common consent and adoption.

But I must leave all these suggestions and others which might be made and come directly to my main topic. This is:

Government and Some of Her Corporate Interests.

I am going to treat this subject under three sub-divisions. One, relation between them or regulation and control; two, State ownership; three, social insurance.

It is well recognized, speaking in a general way, as the law of the land, that when private property becomes clothed with a public interest, when it is used in a manner to make it of public consequence and to affect the community at large, government can intervene. In this doctrine, supported by the Supreme Court of the United States, lies the authority for and the basis of supervision, regulation and control, by the government, either federal or State, or both, of certain semi-public corporate interests. It is no longer the only duty of the State to protect men's right to life, liberty and property; to defend the right of every man in the full exercise of his faculties, so far as may be consistent with the corresponding right in others. It is no longer a disputed question whether the government exceeds its true function and robs the individual of his natural liberty, in attempting to control or regulate the manifold and diverse matters, which have come within her domain, during the last three decades or more. The issue between individualism, on the one hand, and the right of the public or community, on the other, has been very much sharpened and deepened, and, in many instances, magnified, by all branches of government within the time I mention.

The most pronounced examples in which this development of governmental power has shown itself, have been in connection with our banks, our transportation systems and our insurance companies. Oddly enough, too, this development, though it has in the main taken place concurrently in the three spheres of business activity named, has found its expression and practical application in somewhat different channels and has been exercised through somewhat different machinery. Our banking system is so largely a national matter that we may, in our present discussion, treat it as if it were entirely so. Formed within the memory of many of us, under the direct authority of the Federal Government, supplanting in a very large number of instances the old State banks, we find that the Federal Government acts alone so far as the creation, control, supervision and regulation of our national banks are concerned. They are not within the confines of State authority. They report to the national government, are amenable to that government and subject to its laws. Within the last few years the hold of that government upon them has been gradually tightened and the regulations have become somewhat more stringent. Yet in no such way as applies to either railroads or insurance companies has this increased stringency been manifested, nor are they the objects of such public gaze or the recipients of so much widespread notoriety as the other two. This may be so because their operation is mainly local, no one bank inviting the patronage to any large extent of States or territory not immediately adjacent to its locality, and striving to reach the people of the entire country through forty-eight different agencies, although even now there are distinct indications of the formation of branch banks by some existing national banks, while the passage of the Federal Reserve Banking Act, which gives promise of real help and usefulness, and the consequent division of the country into a small number of Federal reserve districts,

have already emphasized the National character of the new banks and extended, indirectly at least, the operation of the older individual bank beyond the confines of its own immediate locality. It may be that notoriety has not come to them to a similar extent and in a similar manner, as to the others, because they are not subject to the control of some well-known national commission or to any number of State commissions in the way that the railroads and insurance companies are; it may be that they have not either, as a whole, or in any number of individual cases, so conducted themselves as to be the objects of any large degree of censure from the public.

Subject to neither the supervision of the Federal government nor of the State government alone, but coming within the regulation of both, will be found the great transportation systems of the land. The Federal Government and the State Government have them in their grasp. Legislation and practices, not only drastic but often contradictory, hamper and impede them at frequent intervals. Notice, for instance, the contest between the State Commission of South Dakota and the Interstate Commerce Commission just determined by the United States District Court at Cedar Rapids, Iowa. This was a question of whether the State or the nation was supreme in the matter of rates. It took a court to decide that no State can create a preference for its own citizens against citizens of another State by establishing discriminations against them by rates officially declared and judicially approved. I do not say that much of the drastic legislation is not to a certain extent deserved, for much of it has been brought about by the conduct of the railroads themselves, but that the condition exists with the result that the servant finds himself trying to serve at least two masters and satisfying neither; so it must be, it seems to me, until the situation is relieved. As a practical question, do you think that the States will relinquish their hold?

While I have been and am an advocate of national supervision of insurance, provided it can be brought about in such a way that the States shall be made to relinquish their present supremacy and the control be placed in the hands of a single Federal bureau or department, where all friction with the States would be removed and all companies, except those operating in their home States alone, would partake more or less of the national character, let us ask the same question in regard to insurance which we have asked in regard to the railroads. As a practical matter, do you think the States will relinquish their hold? These States are now supreme. Do you think that under such circumstances a single headed bureau is at all possible?

Of course, such a condition seems an idle dream at present, impossible of solution by either amending the constitution or, in the face of accumulating decisions, by a change in the attitude of our Supreme Court. Whether it be possible, however, and whatever the future may have in store for us, in regard to it, I need not tell you here in this assemblage, that so far as our insurance companies are concerned, the Federal Government, in marked contrast with its relation to our banks and railroads, has no control or regulation over them. The States alone have the authority to control, regulate and supervise insurance and insurance companies. This is the situation, as a matter of fact, and the situation to be considered, notwithstanding that insurance is essentially an interstate matter. Because, however, our Supreme Court, as I have said, has held repeatedly that insurance is not commerce and does not come within the domain of the Federal

Government, the control and supervision of insurance and those engaged therein, belong exclusively to the States. This results in irregularities and inequalities of very great magnitude, both in laws and in practice which it should be, and I am happy to say is, the task of this body, both collectively and individually, to remove and obliterate. The results of such action have been shown in our fraternal bill, our standard fire policy, our health and accident provisions, as well as in other directions, which I need not mention.

But at the best, comparatively speaking, how little after all have we done or can we do? However willing we may be, there is no unity of purpose among the States themselves. There is no standard to follow except that which each State may establish. A State which has an insurance code, defining, prescribing and limiting, in detail, upon whatever the subject matter may be, is not going to withdraw its directing hand to meet another State whose regulations are less intricate; a State which believes to a high degree in rate making is not going to find a common level with a State which may deem it unwise to regulate that matter by law. A State which believes in ordering, even to a limited extent, the character and locality of investment, is not going to join hands with a State which does not believe in such conduct. Such a fruitful source of income as the insurance companies is not going to be abandoned by one State, and they are not going to be relieved from burdensome taxation, in order that several States may meet on an equality. And while we are speaking of taxation, it seems to me that inasmuch as we have no Federal supervision over insurance, and insurance is not commerce and insurance companies are the creatures of the State and not of the nation, the Federal Government should keep its hands out of the companies' treasuries—at least, put them in no further than they do in other groups of corporations, to which governmental access is easy—and thus preserve the spirit of the decisions and the spirit of the constitution, which say in effect, as well as in words, that the Federal Government cannot control or regulate insurance.

This picture of governmental control, which I have thus tried to draw, shows that public regulation is here to stay, for a time at least. Can it be made more fair, more just and more reasonable? It can be if we will consider every question, whether it appertains to our banking, our insurance, or our railroad systems, from every side. The whole should not be punished for the wrongdoing of a few. Rates, whether of railroads or of insurance, are not always to be downward. They should be upward or downward, only after careful deliberation and thorough investigation from the companies' standpoint as well as from the public's. I do not remember ever quoting from one of our foremost citizens with approval before, but I am glad to do so now, taking his words from a recent article by Mr. Otto Kahn. He quotes Mr. Roosevelt as saying:

"When we control business in the public interest we are also bound to encourage it in the public interest, or it will be a bad thing for everybody and, worst of all, for those on whose behalf the control is nominally exercised. . . . This object cannot be accomplished by a chaos of forty-eight States working at cross purposes in the development of our interstate and international industrial fabric. . . . So much of the regulation attempted in our country in the past has been done by demagogues or by heedless politicians interested only in their own momentary political success, that the very name Regulation has become an offense and an abomination to many honest business men."

This means that supervision, in order to be more fair, more just and more reasonable, must be had in co-operation with those who have these great interests in hand, where such is possible and where it can be had without injury to the interests of the public, and that we should act only after mature and impartial consideration where co-operation is not possible.

I still consider the main tests of competent supervision to be the solvency of the companies, their obedience to the law, discouraging foolish and unfair legislation and the bringing together of the companies and their insured in cases of dispute, especially where the amounts involved are small and the people concerned ignorant of the force and effect of their contracts. Otherwise, it is not our business to manage the companies' affairs.

State Ownership.

I said a few moments ago that State regulation is here to stay for a time at least. The alternative is State ownership. Shall we have it?

Much depends on the conduct of the corporations themselves—the conduct of the railroads and the insurance companies. That can be of such a nature, such as it was in the case of insurance before the investigation of 1905, and such as it has been in the management of many railroads recently, as to force the question upon us. Wrong conduct and excessive cost are the two great causes which will bring about this ownership. The public mind will be influenced thereby only as they are perpetuated; it will not stand for those evils. The people will seek for some remedy, such as governmental ownership of both railroads and insurance as it exists in Italy today. I do not believe that in this country we are ready for public ownership on any other ground. It may be that the people can be so educated as to demand it, but it will be such things as wrong conduct and excessive cost that will be the foundation of that education. In other words, the kind and quality of the service, which our semi-public corporations give, will determine very largely the question of State ownership. Whether such ownership is inherently right has not yet been proved with us. Experience abroad, and certainly our own experience, have not as yet justified any general move in that direction. There are many reasons why, in the proper conduct of these semi-public enterprises, the people will be satisfied with the present order. In the first place, the State has created these enterprises, has placed her seal upon them, and has encouraged them, within narrowing bounds, to be sure, to transact their own affairs. And while the same power which creates, can also destroy, there is no reason to expect that result, unless the created themselves lose all right to further support and favorable consideration. In the second place, as Mr. Hotchkiss, formerly Superintendent of Insurance of the State of New York, has so well said: Politics would control too often, as they do now in public service, and in no case could the expert knowledge and the large experience necessary to insurance, be better used than they are now used in private hands. In the third place, it seems to me, that although many have taken the opportunity to advocate State ownership, as an outcome of the recent congressional legislation, in connection with the threatened railroad strike, claiming that such legislation shows a tendency in that direction, to my mind that very legislation is one of the strongest arguments against State ownership. The people, in their sober senses, will not approve of such legislative action. It is contrary to the spirit of our institutions, our idea of freedom, our conception of fairness, and with State ownership would be much more likely to occur than under the present con-

dition. The fact is that we do not regard with favor a general undertaking of such matters by the government. What is done now is too often not well done. In the fourth place, national and international affairs—railroads and insurance—cannot be managed to the best advantage by the separate States within whose care they fall; the States are not a unit and cannot manage such things, as business affairs, so well as when managed by individuals, they can supervise them by their duly appointed officials. In the fifth place, governmental ownership has not been an unqualified success where tried. It has not met the needs which underlie its inception. Of course, so far as insurance is concerned, it has been in existence but a short time at the best and, therefore, comparisons may not fairly be made, yet the work it has thus far done has been so infinitesimal, relatively speaking, that it is difficult to predict any encouraging results therefrom. The trials in Wisconsin and Massachusetts in the life field have practically failed. Moreover, governmental ownership is contrary to the individualistic idea which permeated our political and economical structure, in the early days, and which still prevails, to a large degree, in spite of the community idea, to which I referred at the beginning.

Over against this reasoning in opposition to State ownership stand the arguments in its favor.

Insurance from its very nature offers a large field for socialistic operation. It is for the public good in general, and we must learn to look upon government as an organism for advancing common interests, regardless of their nature. Any objection to the effect that State control would be paternalistic is met by the fact that the paternal attitude has been taken already by the very existence of supervision and control and that the natural extension of this principle must result in State ownership of all the affairs of a public or semi-public nature, whereby interests of a vast number of people are affected.

State insurance, both fire and life, exists in New Zealand, today, in competition with private corporations. Life insurance exists in Italy as a State monopoly and fire insurance as a State monopoly in some of the Swiss cantons, although as a rule it is generally in competition with private corporations. State life insurance has also been tried in Wisconsin, and in a modified form in connection with her savings banks, in Massachusetts, some think to its advantage, though, as I have said above, it seems to me that as so tried it has been a failure.

State accident insurance has also been tried in connection with workmen's compensation, in many instances, both here and abroad.

These reasons, however, do not, I think, furnish sufficient basis for the State to engage in this business generally, and certainly not here, in the face of the objections, which seem to me to exist, so far as fire, life and accident insurance, are commonly understood and operated. What it may do perhaps in other directions I now desire to consider for a few moments.

Social Insurance.

No one matter has been introduced into the deliberations of this body, in recent years, it seems to me, which is of greater concern and so general in its extent, as the resolution introduced by the Superintendent of Insurance of the State of Illinois, at our meeting in December last, in relation to social insurance.

Whether we agree with him or not we must admit that the question thus raised is of tremendous importance. Its foundation rests on a keener understanding of the common welfare, that welfare which has shaped the course of the workmen's compensation acts, now existing and being enforced in thirty-five States. Ten years ago they were scarcely known to the people and nation at large; now they are so well established that they seem almost to have existed from a time when the memory of man runneth not to the contrary. The time came very rapidly when we realized that the wear and tear on the human frame, in industry, was much more entitled to our favorable consideration than the wear and tear on the mechanical frame, and we hastened to provide a remedy. So, too, without now discussing the many questions on their merits, shall we hasten quickly to provide against other dangers and misfortunes of mankind, such as has been done in Europe for a generation. These provisions will be insurance against sickness, disablement, unemployment, maternity, old age and dependency, among wage-earners. Germany led the way in this respect over thirty years ago and no other country has pursued so persistent a course or so complete a plan as she has, although substantially all other European countries have followed her example. Naturally all this has its effect and influence upon us. Mothers' pension provisions have been adopted in a score of States, while old age pensions, sickness insurance and unemployment insurance have been agitated in Massachusetts, Wisconsin, New York and Ohio, at least, and social insurance commissions have been appointed in California, Massachusetts and New York.

A study of the whole subject by the members of this convention is most desirable. We should know and understand fully the scope and character of social insurance; we should be ready to explain what it means; portray its weak points and emphasize its good points, whenever and wherever occasion may require. This presents a different situation from that which exists by virtue of the established order in the fire, life and regular accident fields. I do not believe in State insurance here, in any way, certainly not to the exclusion of other methods, but a door is being opened for its admission which has not hitherto existed. Social insurance is not necessarily State insurance as some would think. The mutual benefit funds of some European countries, found among the industrial workers, are as much social insurance as the State funds in some parts of our own country, which are maintained in connection with our compensation insurance; and the fact that New Zealand sells fire, life and accident insurance in the same way in which a private company does, does not make such insurance "social."

It does not seem to me that social insurance, when it comes, should be transacted by the State alone. Many of the very people who are most concerned in its adoption, and for whose benefit it will be primarily introduced are opposed to it. Mr. Frederick W. Mansfield, counsel for the American Federation of Labor, is reported to have expressed himself most emphatically in favor of competitive insurance in casualty cases and opposed to State insurance alone, which he regards as detrimental to the interests of organized labor. What is true of casualty insurance is equally true of other forms of insurance, so far as such other forms may be pertinent and applicable. Competitive insurance is far preferable to State insurance alone, and State compulsory insurance, so frequently advocated in this connection, should come only after all other plans have failed. The public will consent, as I have said in another connection, to the retention of the old

methods and organizations so long as those methods and those organizations give fair, just and reasonable treatment.

I have thus tried to introduce a subject which I regard as of great importance. Here at its inception is an opportunity for concerted action by the States. They are not hampered by precedents. Except in its application to federal employees the States have the whole matter of social insurance in their own hands and there is no warrant or justification for Federal interference here any more than in those forms of insurance with which we are familiar. It has been claimed in this connection that the "general welfare" clause of the constitution offers an opportunity and paves the way for legislation on this subject by Congress, but except as above indicated, I can see no force in such an argument. The phrase "general welfare" cannot be taken from its context and made to perform a duty for which it was not intended or applied to a condition to which it bears no relation.

I should have been glad if this convention could have devoted a succession of its meetings to a consideration of this subject in all its bearings. Its beginnings, its growth, its history and its merits might well have been considered by us. In the absence of this, however, I shall be glad if I have contributed anything to your knowledge and consideration of so great a subject, and I am very sure that when the paper by our fellow-member from Illinois is read, we shall be edified and enlightened in a remarkable manner, for he has studied the subject of social insurance from all its angles and in all its varieties.

Before us looms a mountain of real endeavor. The question is, shall we be content to stand beneath it, looking upward, or shall we try to climb it?

The Secretary then called the roll of committees and the hour and place of meeting of such committees as were ready to meet were announced.

The Secretary: I would like to say that I have here for the benefit of the members of the Convention a list of unfinished business and I have also corrected copies of the minutes of the April meeting. The Chairman of the Committee on Unfinished Business wishes this submitted as his report.

Report of Committee on Unfinished Business.

Uniform Law for Fidelity and Surety Companies, special committee, page 2, December, 1915, meeting—Wm. M. Shehan, Chairman.

Social Insurance, page 6, December, 1915, meeting—Rufus M. Potts, chairman.

Fire Insurance Reserve, page 7, December, 1915, meeting—F. H. Hardison, chairman.

Workmen's Compensation, pages 11-13, December, 1915, meeting—F. H. Hardison, chairman.

Uniform Bill for Surety Companies, page 16, December, 1915, meeting—Committee on Fidelity and Surety Companies, Wm. M. Shehan, chairman.

Uniform Fire Policy, page 16, December, 1915, meeting; page 81, April, 1916, meeting—M. J. Cleary, chairman.

Unauthorized Insurance, page 30, December, 1915, meeting—S. D. Works, chairman.

- Contingent Commissions, page 31, December, 1915, meeting; pages 42-66 and 73-78, April, 1916, meeting—Jesse S. Phillips, chairman.
- Licensing Adjusters, page 31, December, 1915, meeting—James R. Young, chairman.
- Mercantile Floater Policies, page 31, December, 1915, meeting—Robert J. Merrill, chairman.
- Reciprocal Underwriters, page 31, December, 1915, meeting—Walter K. Chorn, chairman.
- Fire Insurance Rates, Expenses, etc., April, 1915, meeting, page 11 (with Del Monte Proceedings)—Frank Taggart, chairman.
- Reserves for Pensions for Employees of Insurance Companies, page 64, Del Monte Proceedings—H. P. Hammond, chairman.
- Trust Deed of Foreign Insurance Companies, April, 1915, meeting, page 10 (with Del Monte Proceedings)—F. H. Hardison, chairman.
- Standard Policy Form of Industrial Sick Benefit Companies and to Eliminate Over-Insurance in Such Companies, April, 1915, meeting, page 5 (with Del Monte Proceedings)—C. F. Nesbit, chairman.
- New Mortality Table, page 52, Del Monte Proceedings—H. E. Ryan, chairman.
- To Determine Which Are Special Deposit States, April, 1915, meeting, page 2; Del Monte Proceedings, page 74—Frank Taggart, chairman.
- Initial Fire Loss, page 81, April, 1916, meeting—M. J. Cleary, chairman.
- Real Estate Investments and Bank Deposits, page 82, April, 1916, meeting; page 13, December, 1915, meeting—Robert J. Merrill, chairman.
- Extension of Accident and Health Standard Provision Law, page 86, April, 1916, meeting—Committee on Laws and Legislation—Jesse S. Phillips, chairman.
- Lapses and Policy Loans, page 86, April, 1916, meeting—Committee on Laws and Legislation, Jesse S. Phillips, chairman.
- On Furnishing Information to Citizens in Regard to Insurance, page 7, April, 1916, meeting—Wm. F. Dunbar, chairman.
- Excess Interest Valuations for Fraternal, page 87, April, 1916, meeting; page 17, December, 1915, meeting—Jesse S. Phillips, chairman.
- Annual Reports, page 87, April, 1916, meeting—Committee on Publicity and Conservation, John James, chairman.
- Policy Forms for Live Stock Insurance, page 91, April, 1915, meeting—M. J. Cleary, chairman.
- Mutual Assessment Life Insurance, page 91, April, 1916, meeting—Emory H. English, chairman.
- Whole Family Protection by Fraternal, page 93, April, 1916, meeting; page 15, December, 1915, meeting—J. T. Winship, chairman.
- Employing Lithographers, United Typothetae and Franklin Clubs, page 94, April, 1916, meeting—Executive Committee, Joseph Button, chairman.
- Report on Union Central Life, page 95, April, 1916, meeting—Burton Mansfield, chairman.

The President: Copies of the President's address have been sent to the Insurance Departments and the insurance papers.

The Convention then took a recess until 3:30 P. M.

AFTERNOON SESSION.

September 26, 1916.

The Convention was called to order at 3:30 P. M. by the President.

The President: The first thing on the program is communications and reports. I have one which I desire to present from the Boston Convention Bureau of the Chamber of Commerce inviting this Convention to meet in Boston in 1917. If there is no objection, it will be referred to the Executive Committee.

Mr. Winship, of Michigan: Under that head I have an invitation from the Chamber of Commerce of Grand Rapids. I tried to persuade them that the matter should be held over until the December meeting, but I have it and will give it to the Secretary for filing with the Executive Committee.

Mr. James, of Utah, presented invitations from several organizations of Salt Lake City for the Convention to be held in that city in 1917. These were also referred to the Executive Committee.

The President: I presume you have all received communications in regard to a uniform law relating to the qualifications of agents from the National Association of Life Underwriters. Here is such a communication addressed to me which was received last night. I presume it should go to the appropriate committee.

On motion of Mr. Phillips this communication was referred to the Committee on Laws and Legislation.

Mr. Dunbar, of Tennessee: Mr. President, I desire to bring formally to the attention of this Convention the recent tragic death of the Honorable Jno. S. Patterson, Commissioner of Insurance and Banking for the State of Texas.

I feel that it is my sad duty to move for the appointment of a committee to draft suitable resolutions in respect to his memory, because he was a native of my State. He was born in Murfreesboro, Tennessee, some forty-four years ago. After completing his education he practiced law for a while in Nashville, and then went to Texas, where he achieved success in the practice of his profession and in banking. About two years ago he was appointed by Governor Ferguson to the office he held at the time of his death.

It is reported in the press that he was shot down by a banker at Teague, Texas, while he was posting a notice officially closing the bank; that he was shot down without warning, and hence without an opportunity to defend himself.

It may be thought that such a deed is a sad commentary on the degree of civilization we have attained. But when we read of the profound sorrow it has occasioned on one hand, and the indignation it has aroused on the other; and when we learn that a movement was immediately started to rear with public contributions a monument to his memory, we realize that his unselfish public service was not without appreciation from those he served.

He did not live or die in vain.

I only met Mr. Patterson on two occasions; but because of the openness of his nature, his genial manner and the simplicity that characterizes most brave men, one felt on meeting him only once a sense of long and agreeable association.

His administration of his important office was marked by a degree of intelligence and zeal seldom brought to the performance of public duties.

He was a man of undoubted courage, moral and physical. He did not shirk responsibilities. He did not evade issues. There were those who did not always concur in his outspoken opinions, but there were none who doubted his sincerity. Even those who differed radically from him respected his genuineness and candor.

Notwithstanding his arduous and manifold duties, he had undertaken the self-imposed task of preparing a code of insurance laws for his State—a prodigious labor as we can well understand.

Dying as he did, in the performance of duty, his death makes an appeal to our most uplifting emotions.

Like every man who has given up his life in the discharge of duty, he has consecrated duty anew. In surrendering the fitful spark of terrestrial life, he replaced it with a vital spark from above to kindle the hopes of all men who are trying to do their duty in that state of life in which it has pleased God to call them.

Throughout all history the swift messenger of death hurled by ruthless hands has, from time to time, extinguished the bright spirits of those who led the way. But always others take up the torch that has fallen from nerveless hands. Always the death of a martyr advances the cause for which he died. Always the surrender of a life on the altar of duty makes its strong appeal to all worthy men and ennobles their daily tasks.

I trust I may be indulged in fancying that his official conduct took character from his native State, whose history is that she stepped forward, and, saluting the opportunity to serve, won the title "Volunteer State." Murfreesboro, where he was born, was one of the great battlefields of the Republic; and I fancy that the source of his courage were the unnumbered graves that mark the scene where men of the North and men of the South grappled in one of the most momentous battles of our Civil War, and whose mingled blood has cemented our Union and made real and imperishable the dreams of the Fathers.

He worked earnestly for the good of his adopted State to which, while cherishing tender memories of his mother State, he was intensely loyal. He strove for clean and honorable methods, and for a higher idealism in the two branches of business it was his duty to supervise.

In the prime of life; just as hope seemed to find its full fruition; just as he had entered a field wide enough and worthy his highest

endeavors, the leaden messenger of death confounded all his plans and ended all his work.

Mr. President, we shall miss in this, and our future conventions his frank and virile arguments, the rapier thrust of his keen wit, and the charm of his personality.

In honoring our friend we do something more than pay him tribute; we dedicate ourselves to a fearless and unselfish devotion to the work that has been given us to do.

If we advance, ever so little, the standards by which men deal with their fellow men, we thereby advance the banner under which all men go forward in the eternal battle for righteousness.

And of this, our departed friend, we can say, as was said of the murdered Duncan:

"His virtues will plead like angels, trumpet tongued—
Against the deep damnation of his taking off."

The motion was carried and President Mansfield appointed the following committee to draft the resolutions:

Mr. Wm. F. Dunbar,

Mr. W. K. Chorn,

Mr. Rufus M. Potts.

Mr. Taggart, of Ohio, presented an invitation from the Chamber of Commerce of Columbus, Ohio, to the National Convention of Insurance Commissioners to hold the 1917 meeting in that city. This communication was referred to the Executive Committee.

Mr. English, of Iowa, extended an invitation from the Chamber of Commerce of Des Moines to the National Convention to hold its April, 1917, meeting in Des Moines. This invitation was likewise referred to the Executive Committee.

Mr. Phillips, of New York: While we are on this subject, the Chamber of Commerce of the City of Buffalo wishes to present a very urgent invitation that the Annual Convention for 1917 be held in that city, and I shall present the invitation formally to the Executive Committee later, but for fear I might be foreclosed I mention it at this time.

Mr. Young, of North Carolina: I want to suggest that Asheville and Grove Park Inn are with us and would be glad to have this Convention for all three meetings.

This invitation was referred to the Executive Committee.

The President: Are there any committee reports ready?

Mr. Hammond, of Connecticut: I have the report of the Committee on New Mortality Table. In the absence of the chairman I might say this is simply a report of progress. The work is going on and a large percentage of companies are now contributing data.

REPORT OF SPECIAL COMMITTEE ON NEW MORTALITY TABLES.

To the National Convention of Insurance Commissioners:

Your Special Committee reported in detail to the Convention at its meeting held in Monterey, California, in September, 1915, and

recited what had been done up to that time in the direction of a new mortality investigation. The full report of the Committee appears in the proceedings of the 1915 annual meeting, commencing at page 52.

On April 6, 1916, there was held a joint meeting of the special committees representing, respectively, the Actuarial Society of America, the American Institute of Actuaries and the National Convention of Insurance Commissioners. At this meeting were adopted a set of rules and instructions to be used by the contributing companies in preparing their data for the investigation. (See Appendix.) These rules and instructions were promulgated in final form by the Actuarial Society's Committee on May 1st, 1916, and at the same time the companies were requested to furnish their data to the committee by October 31, 1916.

Your committee is advised by Mr. Arthur Hunter, Chairman of the Actuarial Society's Committee, that all of the prominent life insurance companies of the United States and Canada have agreed to participate. The following tabular statement shows to what extent the available experience data will enter into the investigation:

	Companies entitled to participate	Companies which have agreed to contribute data	Percentage of available data represented
United States	69	53	95
Canada	13	10	87

A copy of the rules and instructions governing the investigation are annexed to this report.

Attest: Respectfully submitted,
H. PIERSON HAMMOND,
R. E. ANKERS,
G. W. SMITH,
WALTER E. OTTO,
HARWOOD E. RYAN, Chairman.

The report was adopted.

NEW MORTALITY INVESTIGATION.

RULES AND INSTRUCTIONS.

Scope of Investigation.

The investigation will cover the experience from the policy anniversary in 1900 for policies issued prior to 1900 and continued in force after such anniversary, and from date of policy for policies issued in the years 1900 to 1914, inclusive. In all cases the period of observation will close on the anniversary in 1915, or at the prior termination of the policy. Thus a policy issued in the year 1900 would be carried to its anniversary in 1915, if then existing; a policy issued in 1899, however, would not be considered during its first year after issue, but would come under observation from the anniversary in 1900.

The investigation will cover only policies issued on standard or normal risks at the regular rate of premium. (For details see statement of "Policies to be omitted.")

Amount of Data to Be Contributed by Each Company.

As it is desired that the smaller companies should contribute an adequate proportion of the data, a plan has been arranged whereby in general the larger the company the smaller will be the percentage of its data to be contributed. Each company has been

apprised of the rule for ascertaining the percentage of data which it will be expected to contribute to the investigation.

How Data May Be Furnished.

Each company may present its data in either of the following forms:

- (a) On policy sheets.
- (b) On perforated cards.

The committee will supply the policy sheets and cards at cost in quantities as requested.

Policy Sheets—The policy sheets provide for the entire record of each case, one policy to each line on the sheet. Each sheet must be headed with the calendar year of issue. A sheet must not contain policies dated in different years. Policies dated back to a preceding year should be entered on the sheet pertaining to that year. All policies dated back more than three months are to be excluded. When more than one policy has been issued on a single application, each policy is to be treated separately.

Perforated Cards—The companies which furnish their data on policy sheets will be charged with the actual cost of the perforated cards and of preparing them. The committee is willing to undertake the perforation of the cards. When the data are furnished on cards it is essential that the cards be on the forms prepared by the committee. Companies which perforate their own cards are strongly advised to first enter the data on the policy sheet or other medium, preparing the perforated cards therefrom, as experience has shown that the liability to error is thereby greatly reduced.

To avoid error different colored cards will be used for policies issued (a) prior to 1900, (b) 1900 to 1914 inclusive.

Amount of Insurance.

The investigation will be based upon initial amounts insured, disregarding any return premium element or increasing insurance. Instalment and income policies are to be taken at the commuted value of the instalments-certain, and the same rule shall apply to other policies of like character. The companies are requested to give the initials and date of birth of the insured where insurance of \$50,000 or more was effected on one application, in order that the committee may handle properly policies for large amounts on individual risks.

The amount of insurance is to be taken to the nearest one hundred dollars.

When policies are either increased or decreased in amount they are to be considered as terminated as of the date of change, except that policies changed before the end of the first year shall be considered as having been issued for the increased or decreased amount.

The mortality will be investigated in four main groups of insurance, groups 5 and 6 being subdivisions of 4.

Plan of Insurance.

The data on forms of policy other than those noted below are not to be supplied.

In entering the plan of insurance either on sheets or on perforated cards the following code is to be used:

Code No.

Plan of Insurance.

- 1 Ordinary life, or endowment insurance, maturing at age 80 or over.
- 2 19 and 20 payment life policies, or 19 and 20 premium endowment insurance maturing at age 80 or over.

- 3 19 and 20-year endowment insurance maturing at ages under 80, with premiums payable during the whole term.
- 4 10 year non-renewable term of 10-year renewable term, running as term insurance, during the first 10-year period; i. e., exposure within the original 10-year term alone is to be included in this group.
- 5 Policies converted or changed from 10-year non-renewable or 10-year renewable term to any other plan without a new medical examination before the end of the original term period. The exposure is to run from the date of the change, irrespective of the registry date of the changed policy.
- 6 Policies renewed or converted from 10-year renewable term to any other plan without a new medical examination at the end of the original term period. Exposure is to run from the date of change.

Some of the policies in group 4 will also be included in group 5 or 6. In such cases separate entries should be made in the policy sheets, or separate cards prepared for the exposures under groups 5 and 6. Cases appearing in groups 5 and 6 should be entered on policy sheets which have the year of the change as the year of issue; on the perforated cards the year of issue should be the year of change to group 5 or 6. In group 5 the year of issue of the original policy should be given in the policy sheets in the columns headed "Space for company's own use."

When a policy appearing under code No. 1, 2 or 3 is changed to another plan, it is to be considered, for convenience, as terminated at the date of change, except that policies changed before the end of the first year are to be considered as having been issued on the plan to which they were changed.

Sex.

As separate investigations may be made of the mortality among men and women, the former are to be designated by "M" and the latter by "F" in the policy sheets and on the cards.

Residence at Date of Issue.

As investigations will probably be made of the relative mortality in different sections of the United States and Canada, the State or province is to be recorded. All companies are expected to use the code appearing in the attached schedule, whether policy sheets or perforated cards are used.

The residence at date of application is to be taken, and no changes are to be recorded. Residence in Canada should be reported according to the present geographical limits of the provinces.

Age at Entry.

The entry age is to be taken at nearest birthday. Companies which have made use of the next birthday should be especially careful as to this rule. Care should also be taken that the true age be recorded at the younger ages at entry.

Duration of Insurance.

The duration is to be obtained by taking the difference between the calendar year of issue, whether prior to 1900 or not, and the calendar year of termination, ignoring the days of grace. This, however, does not apply to termination by death if the death occurred after the anniversary of the policy in the same calendar year, in which case the duration by the foregoing rule is to be

increased by one year. For example, for a policy dated July 1, 1902, with date of death June 5, 1912, the duration would be ten years; but if death occurred August 15, 1912, the duration would be eleven years. If death occurred January 20, 1913, the duration would also be eleven years.

For convenience, policies issued with interim term of less than a year are to be considered as issued at the expiry of such term, and care should be taken to exclude deaths during the interim term.

Policies issued with preliminary term valuation and uniform premiums are to be included from date of issue exactly as if they had been granted under a level premium valuation.

Policies converted into extended insurance are to be recorded as continuing in force until terminated unless they are reduced in amount, in which case they should be treated as lapsed at date of conversion.

Policies converted into reduced paid-up insurance are to be treated as terminated as of the date of conversion, and their subsequent history ignored, unless restored, in which case the general rule, given in the next paragraph, will apply.

When policies have lapsed and have been restored within six months, the lapse is to be ignored and the policy treated as if there had been no break in the continuity of the risk. In other cases the policy is to be treated as lapsed and the restoration is to be ignored, except in cases running on term extension for the original amount at date of revival, which are to be restored as of the due date of the premium, i. e., both lapse and restoration are to be disregarded.

In accordance with the instructions under "Plan of Insurance," 10-year term policies completing ten years' duration are to be treated as terminated on the tenth anniversary and code No. 4 (expired) used. Any subsequent duration of the original or a substitute policy will be included with policies listed under No. 6 of the Plan of Insurance Code.

Policies issued with deferred dividend periods of 10 years or more, and which continue in force to the end of the deferred dividend period are to be treated as terminated at that date.

Policies in force at their anniversaries in 1915 are not to be continued under observation after such anniversaries, and the duration of the policy is to be omitted and "X" is to be used. Great care must be taken not to include any deaths which occur after the anniversary in 1915.

Policies to Be Omitted.

The following are to be omitted from the investigation:

A Policies not taken.

B Policies terminated otherwise than by death in the same calendar year as dated. Policies issued prior to 1900 and terminated prior to 1901, unless termination was by death during the year 1900 and after policy anniversary in that year.

C Policies for less than \$1,000.

D Policies issued on the industrial or intermediate plan.

E Policies issued in any country outside of the United States or Canada.

F Policies issued by way of reinsuring part of the individual risk of another company.

G Policies reinsured in bulk, i. e., insurance on a number of policyholders taken over from another company at the same time, except where the change is merely one of corporate form.

H Policies issued on underaverage or substandard lives. These include policies issued at an extra premium, placed in a special

dividend class, or charged with a lien. Policies issued at standard rates on another plan than that applied for are to be included. Policies on women on which an extra premium was charged, or which were placed in a special dividend class, on account of sex only, are to be included in the investigation. Exclusion in cases of extra premium for foreign residence applies only when the extra premium runs from the date of issue of the policy. If, one year or more after issue, the policy becomes subject to extra premium, no account is to be taken of the fact, and the case is to be included in the investigation.

I Policies incontestable from the date of issue.

J Policies issued on the group insurance plan, or on any other plan which did not call for a regular medical examination.

K Joint Life Policies.

L Policies issued originally on the fraternal assessment of flexible premium plan, unless re-issued on medical re-examination, in which cases they are to be treated as new insurance as of the re-issued date.

M Policies dated back more than three months.

N Policies issued on plans not specified under "Plan of Insurance."

O Policies issued prior to 1900 and in force on their anniversaries in 1900 either as term extension or reduced paid-up.

Deaths.

The cause of death is to be recorded by the code used in the medico-actuarial mortality investigation. That code, a copy of which is attached, is based upon the "International Classification of Causes of Sickness and Death," as revised by the International Commission at the session in Paris in 1909.

Special care must be observed in handling the death losses so as to make sure that all deaths are included as such, and that cases terminated by death are not otherwise recorded.

Additional Data for Company's Own Use.

A company may record additional information on the sheets or cards if such is desired for its own purposes, provided the space required for the committee's data is not used.

Avoidance of Error.

It is suggested that the transfer of the records from the register to the policy sheets or cards be carefully checked, and that such checking be done by a clerk other than the one who prepared the sheets or cards. When there is any doubt regarding the proper entry it should be referred to the actuary of the company; and if he is in doubt the matter should be sent for adjudication to this committee.

Date When Data Should Be in Hands of Committee.

The committee hopes that the data will be in its hands by the 31st of October, 1916. Companies which arrange to supply policy sheets should send them to the committee in batches as soon as completed in order that the perforated cards may be prepared without delay.

Communications should be sent to the Committee on Mortality Tables, care of Actuarial Society of America, 346 Broadway, New York.

Code for Mode of Termination.**Code No.**

0. Lapsed.
1. Term extension expired.
2. Reduced paid-up or reduced term extension.
3. Purchased.
4. Expired.
5. Matured.
6. Completion of deferred dividend period.
7. Change in plan or in amount not included in No. 2.
- 8.
9. Dead.

Policies terminated on account of foreclosure of loan are to be treated as purchased.

When the policy is in force at the anniversary in 1915 the letter "X" should be entered in the policy sheet under the heading of "Duration." In the case of the perforated card, the space marked "X" should be punched in the duration field.

CAUSES OF DEATH.

Deaths are required to be recorded in the symbols given in this list.

These causes of death are based upon the "International Classification of Causes of Sickness and Death," revised by the International Commission at the session in Paris, July 1st to 3d, 1909, and issued and printed in 1910 by the Department of Commerce and Labor, Bureau of Census.

The left-hand column gives the code number for use in the investigation and the definition. The right-hand column gives the numbers of the corresponding diseases in the international Classification. For exact definitions medical directors can refer to the international classification.

I.—General Diseases.

Code No.	International Classification.
1. Typhoid fever	1
2. Typhus fever	2
3. Malaria	4—4a
4. Smallpox	5
5. Influenza	10
6. Military fever	11
7. Asiatic cholera	12
8. Cholera nostras	13
9. Dysentery	14
10. Plague	15
11. Yellow fever	16
12. Erysipelas	18
13. Other epidemic diseases	3—6—7—8 9—17—19
14. Purulent infection and septicaemia.....	20
15. Mycoses	25
16. Pellagra	26
17. Tuberculosis of the lungs	28
18. Other varieties of tuberculosis	29—30—31 32—33—34 35
19. Syphilis	37
20. Gonococcus infection.....	38
21. Cancer and other malignant tumors	39—40—41

Code No.	International Classification.
	42—43—44
	45
22. Acute articular rheumatism	47
23. Chronic rheumatism and gout	48
24. Diabetes	50
25. Anaemia and chlorosis	54
26. Other genral diseases	21—22—23
	24—27—36
	46—49—51
	52—53—55
27. Alcoholism, acute or chronic	56
28. Chronic lead poisoning	57
29. Other chronic poisonings	58—59

II.—Diseases of the Nervous System.

30. Inflammation of brain and its membranes..	60—61—61a
31. Locomotor ataxia	62
32. Other diseases of the spinal cord	63
33. Cerebral hemorrhage and apoplexy	64
34. Softening of the brain	65
35. Paralysis without specified cause	66
36. General paralysis of the insane	67
37. Other forms of mental alienation	68
38. Epilepsy and non-puerperal convulsions....	69—70
39. Other diseases of the nervous system.....	72—73—74
40. Diseases of the eyes and their annexa	75
41. Diseases of the ears	76

III.—Diseases of the Circulatory System.

42. Pericarditis and acute endocarditis	77—78
43. Organic diseases of the heart.....	79
44. Angina pectoris	80
45. Diseases of the arteries, atheroma, aneurism, etc.	81
46. Embolism and thrombosis	82
47. Other diseases of the circulatory system ...	83—84—85

IV.—Diseases of the Respiratory System.

48. Acute bronchitis	89
49. Chronic bronchitis	90
50. Bronchopneumonia	91
51. Pneumonia	92
52. Pleurisy	93
53. Asthma and pulmonary emphysema	96—97
54. Other diseases of the respiratory system— tuberculosis excepted	86—87—88— 94—98

V.—Diseases of the Digestive System.

55. Ulcer of the stomach.....	102
56. Other diseases of the stomach, mouth, pharynx, oesophagus	99—100—101
	103
57. Diarrhoea and enteritis	105
58. Ankylotomiasis	106
59. Intestinal parasites	107
60. Appendicitis and typhilitis	108
61. Hernias, intestinal obstruction	109

Code No.	International Classification.
62. Other diseases of the intestines	110
63. Cirrhosis of the liver	113
64. Biliary calculi.....	114
65. Other diseases of the liver	111—112—115
66. Simple peritonitis, non-puerperal	117
67. Other diseases of the digestive system, cancer and tuberculosis excepted.....	116—118

VI.—Non-Venereal Diseases of the Genito-Urinary System and Annexa.

68. Nephritis and Bright's disease	119—120
69. Other diseases of the kidneys and annexa ..	121—122
70. Calculi of the urinary passage.....	123
71. Diseases of the bladder, uretha and prostate and non-venereal diseases of the male genitals	124—125—126 127
72. Diseases of the uterus, non-puerperal and non-cancerous	128—129—130
73. Cysts and other tumors of the ovaries.....	131
74. Salpingitis and other diseases of the female genitals	132
75. Non-puerperal diseases of the breast (cancer excepted)	133

VII.—The Puerperal State.

76. Diseases of pregnancy and the puerperal state	134—135—136 137—138—139 140—141
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VIII.—Diseases of the Skin and Cellular Tissue.

77. Gangrene	142
78. Other diseases of the skin and annexa.....	143—144—145

IX.—Diseases of the Bones and Organs of Locomotion.

79. Diseases of the bones and organs of locomotion (tuberculosis and rheumatism excepted)	146—147—148 149
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XII.—Old Age.

80. Senility	154
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XIII.—Affections Produced by External Causes.

81. Suicide	155—156—157 158—159—160 161—162—163
82. Burns and conflagrations	166—167
83. Accidental drowning	169
84. Traumatism in mines and quarries.....	173
85. Traumatism by machines.....	174
86. Other varieties of traumatism.....	170—171—172 175
87. Effects of cold, heat, lightning	178—179—180
88. Electricity (lightning excepted).....	181
89. Homicide	182—183—184
90. Fractures, cause not specified.....	185
91. Other external violence.....	164—165—168 176—177—186

Code No.	International Classification.
XIV.—Ill-Defined Diseases.	
92. Ill-defined organic diseases.....	187
93. Sudden death	188
94. Cause of death not specified or ill-defined...	189

Residence at Date of Issue.

The following code is the same as that used for habitat in the medico-actuarial mortality investigation except that certain States are not subdivided. The numbers omitted refer to these States. For example, "0" was "Alabama, Gulf Counties," and "1" "Alabama, other Counties." If more convenient, the contributing companies need not re-code the data required for the present investigation, but may use the code for habitat of the medico-actuarial mortality investigation.

Code No.	Code No.
0. Alabama.	38. New York.
2. Alaska.	39. North Carolina.
3. Arizona.	40. North Dakota.
4. Arkansas.	41. Ohio.
6. California.	42. Oklahoma.
7. Colorado.	43. Oregon.
8. Connecticut.	44. Pennsylvania.
9. Delaware.	45. Rhode Island.
10. District of Columbia.	46. South Carolina.
11. Florida.	47. South Dakota.
13. Georgia.	48. Tennessee.
15. Idaho.	49. Texas.
16. Illinois.	51. Utah.
17. Indiana.	52. Vermont.
18. Iowa.	53. Virginia.
19. Kansas.	54. Washington.
20. Kentucky.	55. West Virginia.
21. Louisiana.	56. Wisconsin.
23. Maine.	57. Wyoming.
24. Maryland.	80. Maritime Provinces, i. e., Nova Scotia, New Brunswick and Prince Edward Island.
25. Massachusetts.	81. Province of Quebec.
26. Michigan.	82. Province of Ontario.
27. Minnesota.	83. Provinces of Manitoba, Saskatchewan and Alberta.
28. Mississippi.	84. British Columbia.
31. Missouri.	85. Klondike and Yukon Districts.
32. Montana.	
33. Nebraska.	
34. Nevada.	
35. New Hampshire.	
36. New Jersey.	
37. New Mexico.	

The Secretary read the following report of the Committee on Credentials:

REPORT OF COMMITTEE ON CREDENTIALS.

Honorable Burton Mansfield, President National Convention of Insurance Commissioners, Richmond, Va.

Dear Sir: As Chairman of the Credential Committee of the National Convention of Insurance Commissioners, I beg to report, recommending those members as certified to the Secretary of the Convention, Honorable F. H. McMaster, as being properly accredited delegates to this Convention.

Very respectfully,

J. C. LUNING, Chairman.

ROBERT J. MERRILL.

The report was adopted.

The President: Are there any other reports?

Mr. Hammond, of Connecticut: I have the report of the Special Committee on Reserves for Pensions to Employees of Insurance Companies which I will ask the Secretary to read.

REPORT OF THE SPECIAL COMMITTEE ON RESERVES FOR PENSIONS FOR EMPLOYEES OF INSURANCE COMPANIES.

The following resolution was adopted at the National Convention of Insurance Commissioners at Chicago, in April, 1915:

"Whereas, some of the large insurance companies are paying annuities to their old and superannuated employees and are practically making agreements with those employees who have not reached a stage of disablement that they will be pensioned when that stage is reached.

"Resolved, That a special committee of three, to be appointed by the chair, be directed to investigate and report whether such companies should not in all cases carry reserves on account of such agreements just as though they were made to an outside party, and further report upon what constitutes an agreement to pay such an annuity if it be found that that question is involved in the inquiry."

Pursuant to this resolution the chair appointed a special committee composed of representatives of the Insurance Departments of the States of Minnesota, New York and Connecticut.

A circular letter was prepared by your committee and transmitted under date of August 1, 1915, to over 400 insurance companies which contains the following questions bearing upon the subject under consideration:

1. Is it your custom to pay pensions or annuities to any of your present or former employees, or their dependents? If so, please state particulars in full.

2. Are such payments promised prior to the time when the pensions are to begin? If so, please explain fully the nature of the agreement, stating whether your pension system is controlled by the company, by the employees, or by both jointly.

If any such promise, agreement, or custom exists, please state:

3. What contributions are made to the fund, (a) by the company? (b) By the employees?

4. Under what conditions do annuity payments begin?

5. Do you include in your annual statement the income of your pension fund, the payments made from it, the balance on hand at the end of the year, and the liabilities for the future payments of benefits? If so, please state exactly where such items appear in the statement.

6. How is the balance to the credit of the fund invested?
7. Are such investments segregated as belonging specifically to the fund?
8. Are the net accretions of these investments placed to the credit of the fund?
9. Upon what basis do you calculate the present value or reserve to cover the payment of benefits under your pension system?
10. If you do not carry a liability or calculate a reserve as set forth in the two preceding paragraphs, please state fully your reasons for not doing so.

The companies addressed did not necessarily include all insurance companies in the United States, but the replies received were of such character and variety that it did not seem necessary or expedient to carry the inquiry any further. The committee believes that the material submitted to it embraces every class and character of pensions now being paid or contemplated by the insurance companies of this country for the benefit of their employees.

It can hardly be said that pension schemes are prevalent among insurance companies. This conclusion seems to be borne out by the fact that out of 313 replies received to the circular letter referred to above 296 were from insurance companies which had no such scheme in operation. It should be stated, however, that some of these companies expressed themselves as being decidedly in favor of granting pensions to old and superannuated employees.

In analyzing the replies of the companies which do grant pensions, it was found that some companies have provided life insurance for their employees. The committee, therefore, deemed it wise to include in this report some reference to this phase of the situation, although the subject was not specifically included in the original resolution passed by the Convention.

In this report certain companies which have pension or insurance schemes in operation will be referred to specifically by name. It must be understood that such reference is made for the purpose of proper classification and analysis, and not for the purpose of either criticising or commending any company or companies.

The replies received from companies having pension or insurance plans in operation have been classified for convenience into seven classes, as follows:

- (1) Companies which have established a formal plan of pensioning employees, but which have distinctly provided in such plan that it shall not constitute a contract or obligations of any sort upon the part of the company, even as to employees who may be already receiving benefits thereunder.

Companies whose plans fall under this classification are:

- Prudential Insurance Company.
- Mutual Benefit Life Insurance Company.
- Northwestern Mutual Life Insurance Company.
- Equitable Life Assurance Society.
- New York Life Insurance Company.

- (2) Companies which have casually retired employees by individual action without reference to any established plan, and without any contractual obligation.

Such companies are:

- Home Life Insurance Company.
- Mutual Life Insurance Company.
- Hartford Steam Boiler Inspection and Insurance Company.
- Provident Life and Trust Company.

As to these two classes there seems to be no obligation whatever to make any payment to any employee, nor to continue any payments to any employee who may previously have been entitled

thereto, and the company not being obligated to make such payments, it is difficult to appreciate upon what ground such companies could fairly be required to maintain reserves therefor.

(3) Companies whose arrangement seems to constitute a contract with such employees as may become superannuated or retired pursuant thereto.

Such companies are:

John Hancock Mutual Life Insurance Company.

Travelers Insurance Company.

Travelers Indemnity Company.

Penn Mutual Life Insurance Company.

As to this third class, including four companies which do not reserve the right to discontinue the plan as to those who have become entitled to benefits prior to such discontinuance, it would seem that appropriate reserves might properly be required to the extent that the employees may, from time to time, have become entitled to benefits, pursuant to the terms of such plan.

Of the four companies mentioned in this class, two, the Travelers Insurance Company and the Travelers Indemnity Company, apparently maintain reserves for those who have, from time to time, become entitled to pensions. As to these two companies the plan may be discontinued, except as to existing beneficiaries.

The Penn Mutual Life Insurance Company states in its letter of August 5, 1915, that there have as yet been no beneficiaries under this plan, and the John Hancock Mutual Life Insurance Company says that while it has not set aside a special reserve to cover the case of one clerk who has been pensioned under this plan, it is probable that a reserve will be reported in the annual statement of the company in the future.

(4) The Employers' Liability Assurance Corporation states in its letter of August 9, 1915, that its payments under this plan have thus far been very light, and obligations thereunder have been charged to "current business." Indeed, a resolution of the home office specifically provides that such charge shall be upon revenue derived from business in the United States, and shall continue only so long as the business of the corporation is continued in this country.

(5) Companies which instead of providing pensions for the old age of the employee make provision in one way or another for insurance upon the life of the employee.

They are:

Pacific Mutual Life Insurance Company.

Maryland Life Insurance Company (no formal plan).

(6) The following companies which have both life and pension provisions:

Equitable Life Assurance Society.

Travelers Life Insurance Company.

Travelers Indemnity Company.

Prudential Insurance Company.

With respect to these classes it should be noted that the benefits provided are through the medium of life insurance, the premiums on which are borne in whole or in part by the employers. In these cases, of course, appropriate reserves for such insurance should be carried.

(7) Companies whose employees have separate associations maintaining funds for the benefit of the employees.

These are:

Phoenix Mutual Life Insurance Company.

Provident Life and Trust Company.

In this class it appears that the Provident Life and Trust Company makes contributions to a certain employees' mutual savings society. The characteristics of this plan are such that it would seem to be remote from the subject in hand, and it would also seem that there need be no reserve carried upon the grounds now under consideration. As to the Phoenix Mutual Life Insurance Company it appears that its employees maintain the Phoenix Mutual Benefit Association which receives contributions both from the company and from the members to a fund which is pledged to the maintenance of the pension system for retired or superannuated employees. The amount of contribution from the company seems to be in the discretion of its officers. In this case, there would seem to be no ground whatever for holding that the company itself should maintain a reserve.

To sum up, it seems that reserves for pensions may not fairly be called for, except in cases where the company is obligated to maintain a pension already entered upon and enjoyed by the pensionee, and the obligation amounts to a contract. In such cases the company should certainly maintain a reserve as to all employees who may have become entitled to pension payments during the maintenance of the plan. It is difficult, however, to imagine upon what basis reserves could be computed for employees who are not now, but later may become so entitled. The right of the latter to any payment upon retirement depends upon the continuance of the employee in the employment until he shall have reached an age or length of service which will qualify him for retirement. Inasmuch as there is no available reliable data relative to the rate of discontinuance or withdrawal from pension plans in general, that is to say, no reliable information relative to the permanency of service of employees, there would be little possibility of arriving at an accurate basis for computing such reserves. The wholesale resignation, for instance, of a company's employees would immediately do away with the necessity for such reserves.

In conclusion, it seems that reserves for pensions should be maintained only in the case of companies entering into an irrevocable contract for payment of retirement benefits, and then only as to such employees as shall actually be from time to time retired. In the case of companies which maintain a plan of insurance for the benefit of employees, the same general considerations would apply, namely, that when the company is obligated to maintain the insurance and such obligation amounts to a contract, the reserve should be carried upon the same basis as the reserve for the corresponding plan or plans of insurance effected in the usual course of business. Of the four companies having what appears to be an arrangement of this sort, two, the Travelers Insurance Company and the Travelers Indemnity Company, seem to maintain a reserve in accordance with the rule above suggested. The Penn Mutual has no employees actually retired under this plan. The Employers' Liability Company has a few employees so retired, but maintains no reserve therefor, charging the payments to current expenses in accordance with the resolution creating the plan. If any action is taken requiring such reserves, the latter company would seem to be the only company that we have heard from which would be affected under facts now existing, and, indeed, it is very doubtful whether it should be called on for reserves in view of the following specific provision for method of payment contained in the resolution adopting the plan, to wit:

"And, further, that the charge for any such annuity or pension shall be a charge on the revenue derived from the business of the

corporation in the United States, and shall continue only so long and no longer than the business of the corporation is continued in the United States of America."

The committee desires to acknowledge the very great assistance rendered to it by Mr. L. A. Lincoln, counsel of the New York Insurance Department.

In view of the conclusions arrived at by the committee, it has nothing further to recommend and asks that it be discharged.

HARWOOD E. RYAN,

Associate Actuary, New York Insurance Department;

H. L. PHILLIPS,

Actuary, Minnesota Insurance Department;

H. PIERSON HAMMOND,

Chairman and Actuary, Connecticut Insurance Department.

The report was adopted and the committee discharged.

Mr. Phillips, of New York: I beg to present the report of the Committee on Valuation of Securities and will ask the Secretary to read the report.

REPORT OF COMMITTEE ON THE VALUATION OF SECURITIES.

In the report of the Committee on Blanks, dated May 17, 1916, amended and approved by the Executive Committee at New York on June 13, 1916, appears the following:

"There was brought to the attention of the Committee the fact that many of the companies which desire to avail themselves of the quotations appearing in the Book of Valuation of Securities, published each year under the authority of the National Convention of Insurance Commissioners, cannot do so, owing to the fact that certain States require that the annual statements of insurance companies be filed too early in the year.

"The Chairman of the Committee on Blanks was instructed to bring this matter to the attention of the Chairman of the Committee on Valuation of Securities, in order that he may present the matter to his Committee for action at the Convention of Insurance Commissioners in September next, to the end that it may recommend the necessary amendments to the laws of various States relating to the dates of filing annual statements."

Your Committee has given consideration to the above, and makes the following report thereon:

Convention Book of Security Values.

This book, giving the market values as of December 31st to be allowed on the various securities owned or loaned on by the different insurance companies, has been prepared for the Committee on Valuations of the National Convention of Insurance Commissioners for 1908 and each year since by Mr. Marvyn Scudder, of the Investors Agency of New York, under the close supervision of the Audit Bureau of the New York Insurance Department.

The values given in the book are actual sale prices in most cases, and so nearly accurate as to the prices which would have prevailed had sales taken place near the end of the year in other cases that the various insurance departments and practically all of the companies accept them as the proper values to be used in the annual statements.

Many of the companies have expressed their desire to use these values in the statements filed with the various insurance departments, but have found it impossible on account of the fact that in many States companies are required to file their annual statements on or before February 1st, and this leaves, at the most, eight days between the day the book is sent out from the printer and the date on which the statements must be filed.

In a few States the earliest date on which statements are required to be filed is February 15th, and the departments of some other States, acting under the discretion allowed in their laws, extend the time to February 15. Most of the companies doing business only in those States use the convention book for values on all securities.

The records of the New York Department show that the Convention values were used by 47 of the 186 fire insurance companies doing business in that State for the 1908 statements, and 139 of the 264 fire companies for the 1915 statements, or about 25% and 52%. The convention values are used by a much larger percentage of the United States branches of foreign companies than the percentage of American companies.

When the convention values are not used, the detail work of checking Schedules C and D is many times greater than it is when the convention values are used, and it also requires alterations to four items on the asset page, two items on the liability page, several items in the underwriting and investment, and gain and loss exhibits, and considerable correspondence with the companies.

The use of convention values by those companies which have been able to do so has made such a reduction in the work of auditing those statements that your Committee considers it would be most advisable to have all companies use the convention values in preparing the annual statements to be submitted to all insurance departments.

It is the opinion of the Committee that it would be practically impossible to have the book in print and ready for distribution before January 23d at the earliest, and any attempt to get it out earlier would diminish its accuracy and thus defeat the very purpose for which it is printed. Apparently the only way in which we can get all companies to use the convention values is by amending the laws of the different States so as to make February 15th the earliest date for filing annual statements.

For many years the companies endeavored to get their annual statements in print and before the public as early in January as possible. The companies now realize that this practice (which led to a great amount of nightwork—thereby decreasing the efficiency of the companies' employees—a great many errors, did not result in showing the actual condition as of December 31st), did not have any particular value from an advertising point of view, and there is no doubt that practically all the companies would be willing to have the date changed to February 15th, and would then use the convention values.

From a supervising point of view, it seems most desirable to have the date changed to February 15th at the earliest, even without considering the market value question, as the statements completed and filed on or before February 1st cannot be nearly as accurate as those completed later, and your Committee, therefore, respectfully submits the following resolutions for adoption by this Convention:

Resolved, That the insurance laws of each State should be amended by the next Legislature to provide that the earliest date for filing the annual statements of fire or marine insurance compa-

nies be February 15th, and for other insurance companies and societies, March 1st.

Resolved, That each State now having a law requiring annual statements to be filed on or before February 1st, but discretionary power for extending the time, send a circular to all companies doing business in that State to the effect that the time for filing annual statements will be extended to February 15th for those companies which will use the values given in the Convention Book for the securities owned or loaned on.

In the record of the adjourned meeting of this Convention, held in St. Louis in April of this year, carried at pages 40 and 41, is a statement of receipts and disbursements. No changes are to be made in this statement, with the exception that under "Disbursements," the last item—"Second payment to Marvyn Scudder"—has been paid and the account is, therefore, closed.

Respectfully submitted,
 JESSE S. PHILLIPS, Chairman,
 JAMES R. YOUNG,
 EMORY H. ENGLISH,
 FRANK TAGGART,
 FRANK H. HARDISON,
 RUFUS M. POTTS,
 J. D. O'NEIL,
 J. S. DARST,
 T. M. HENRY,
 FELIX HEBERT,
 Committee on Valuations.

The report was adopted.

Mr. Felix Hebert, of Rhode Island: If I may be permitted to digress from the regular order for one moment I wish to add to those invitations that have already been extended one from Providence. I do so that it may be put upon the record.

The President: This invitation will take the same course as the others.

The President: Are there any other reports? If not, we will go on to the next item on the program. The first paper for the afternoon is "*Reserves of Fire Insurance Companies*", by Hon. C. F. Nesbit, Superintendent of Insurance, Washington, D. C. (Applause.)

Mr. Nesbit: I had rather do as we do out in Missouri where Reville and Chorn and myself were raised—just cut loose and tell you what I have to say, but I am afraid I would take too much time and I will therefore confine myself to the reading of the paper.

(The full text of Mr. Nesbit's paper will be found in the Appendix.)

The President: The next thing on the program is the paper of Mr. C. C. Thompson, of Arizona, and after that the discussion of papers. I wonder if it would not be better if there was to be any discussion of papers if it would not be better to discuss Mr. Nesbit's paper now than later?

Mr. Nesbit: It won't hurt my feelings to discuss it.

The President: I think they would honor you.

Mr. Hardison, of Massachusetts: I move the paper be referred to the Committee on Reserves Other Than Life.

Mr. Potts, of Illinois: Instead of referring it to that committee, I believe it would be better to refer it to the Committee on Fire Insurance Rates and Expenses.

Mr. Nesbit, of Washington: I want to say that a resolution was adopted at the December meeting instructing the Committee on Reserves Other Than Life to investigate the matter of fire insurance reserves, especially with respect to a change of basis from a percentage of the premium collected to a percentage of the risk assumed and also with regard to the conflagration reserve requirement, therefore I believe the matter should be referred to that committee.

The paper of Mr. Nesbit was referred to the Committee on Reserves Other Than Life.

The President: The next thing on the program is a paper on Unauthorized Insurance by Hon. C. C. Thompson, of Arizona. Mr. Thompson has written that he has been unable to prepare such a paper and we must, therefore, omit it. The third paper on the program is "*Insurance Accounting*", by Hon. Carey J. Wilson, Superintendent of Insurance of Kansas. (Applause.)

(The full text of Mr. Wilson's paper will be found in the Appendix.)

The President: You have heard the paper of Mr. Wilson. Are there any remarks or discussions on the subject? When Mr. Nesbit read his paper he spoke about the different rates prevailing in different cities somewhat far distant apart, and I think said that if the insurance in one place was so much it ought to be that in another. I thought I saw a lot of you prick up your ears and I hoped we were going to have a little discussion. We do not have enough discussion. These papers ought to bring forth some discussion.

Mr. Nesbit: I spoke of the dwelling house rate in New York. I mean the small modern brick dwelling. I may be wrong, but my conclusions are that if you take New York City, Philadelphia, Baltimore and Richmond you will not find a variation of anything like 1 per cent. on each \$100. I am convinced of that from a careful study of the figures. When we set aside as a fire insurance reserve a fixed fraction of whatever the company charges for premium with no attempt to make that reserve an amount which will enable it to pay its losses, we have not an adequate basis of reserve.

Mr. Merrill, of New Hampshire: I should like Mr. Nesbit to indicate to some extent the data on which he bases his comparisons of losses.

Mr. Nesbit: All the data I had was a study of the experience of some insurance companies as far as I could get them. We have in the City of Washington for ten years a detailed report of the Fire Department of every single fire which has occurred in the City of Washington. Our Fire Department reports by number of house, number of fire and date of fire. We get from the adjustment bureau the losses paid. I have only been able to analyze them for three

years. I am not going to tell you the average rate of loss. It amazed me and I can understand the meaning of *preferred risks*.

The President: That concludes the program for the afternoon. Don't forget that tonight we have something at the hotel.

On motion the Convention took a recess until 9:30 the following morning.

MORNING SESSION.

September 27, 1916.

The Convention was called to order at ten o'clock by the President.

The President: The first thing on the program is communications and reports. Are there any communications? I have one here from Mr. Fackler. I have been trying to find the proper committee to which to refer it and it seems to be the Committee on Rates of Mortality and Interest. If there is no objection, I would ask that it be referred to that committee.

The chairmen of various committees announced the time and place of meeting of their committees.

The President: I have here a letter which I received from the Governor of Utah urging us to meet in Salt Lake City in 1917. Mr. James has also handed me invitations from Mayor W. Mont Ferry, of Salt Lake City, from The Deseret Association of Life Underwriters, The Insurance Federation of Utah, and the Chamber of Commerce of Salt Lake City. I will refer these with similar matters to the Executive Committee.

The President: If there are no further communications or reports or call of committees, we will proceed with the regular program. Mr. Merrill has asked to be excused for a few moments, so we will take up the second paper, "*Departmental Co-operation, Auditing and Preparing and Publishing Annual Reports*", by Hon. F. H. Hardison, Insurance Commissioner of Massachusetts. (Applause.)

(The full text of Mr. Hardison's paper will be found in the Appendix.)

The President: You have heard the paper of Mr. Hardison. The matter is now open for discussion. Are there any remarks? Any questions which any of you would like to ask?

Mr. Nesbit, of Washington, D. C.: I would like to ask Mr. Hardison if he thinks the proposition at all feasible of having one volume that gives the full story of the companies and let the State reports be much smaller and include the local matters? That is the question that has been in my mind, and I want to tell you an experience of my own. I found the report in Washington covered 689 pages. Last year I cut it down to 172 pages. I only put in the totals of assets and liabilities. It was a great surprise to me to know how much better

the insurance men thought it was. If we could have one volume published that would give the details and then in our local reports make them much smaller and confine them to the local issues, the local business and local interest, it seems to me it would be better. I would like to ask what he thinks of that?

Mr. Hardison: As I pointed out in the paper, the laws of the different States somewhat differ in respect to what shall be allowed as assets. Massachusetts has some peculiar laws of her own and a general statement that would be satisfactory to all would not fit the Massachusetts situation. The same is true of New York and several other States. So that the statement of a company operating in New York and Massachusetts would not present the same figures. Therefore you would have to change your laws and I think that would be a rather difficult thing to accomplish.

Mr. McMaster, of South Carolina: I want to ask Mr. Hardison if he had considered the matter of having the reports of various companies printed by signatures, the idea being that companies not admitted into a State would not require those particular signatures. In other words, as an unfinished pamphlet, so that companies admitted in Massachusetts and Connecticut and Rhode Island could have it inserted in their bound volumes, but if it was not in Maine, Maine would not need it.

Mr. Hardison: I considered that proposition, but I came to the conclusion that that would involve so many changes that it would be doubtful if there could be anything saved by it.

Mr. McMaster: Have you considered also the advisability of this, for instance taking North Carolina, South Carolina and Virginia. In South Carolina I have one company that is operating in those three States. If those States agree upon a basis of valuation then South Carolina could have printed a complete statement and furnish to North Carolina and Virginia so many copies of the unbound report on that company as those States might wish.

Mr. Hardison: That would work all right supposing your laws are the same. But if the North Carolina laws are such that they require different figures for the assets and liabilities and surplus, then they would have to be changed for North Carolina. There is the difficulty of the proposition. If you can find a group of States where the laws accept the same figures for assets, liabilities and surplus, then it would work all right.

Mr. Harper, of Colorado: I think that paper should be referred to some committee. I move that it be referred to the appropriate committee.

On motion the paper of Mr. Hardison was referred to the Committee on Blanks.

The President: The next paper on the program is "*The Best Way of Obtaining Correct Annual Statements*", by Hon. R. J. Merrill, Insurance Commissioner of New Hampshire. (Applause.)

(The full text of Mr. Merrill's paper will be found in the Appendix.)

The President: The paper is now before you and open for discussion. Are there any remarks or any questions which any of you would like to ask? I am sorry that the Deputy Superintendent of New York was out of the room when the gentleman referred to his committee. Perhaps we would have had a remark if he had been in. The Committee on Blanks, I presume, would be the proper committee to which this paper should be referred.

On motion Mr. Merrill's paper was referred to the Committee on Blanks.

Mr. Button, of Virginia: The Committee on Blanks being in the limelight at this time, I will make the report of the Executive Committee to consider the report of the Committee on Blanks.

REPORT OF THE COMMITTEE ON BLANKS.

Richmond, Virginia, September 26, 1916.

To the National Convention of Insurance Commissioners:

The Executive Committee met in New York on June 12, 1916, to consider the report of the Committee on Blanks and after making some inconsequential changes instructed the chairman of the committee to prepare the blanks in accordance with the amended report and have them sent to all members of the Convention. The amended report of the Committee on Blanks is attached.

Respectfully submitted,

JOS. BUTTON,
F. H. McMASTER,
EMORY H. ENGLISH,
JAMES R. YOUNG,
FRANK H. HARDISON,
JESSE S. PHILLIPS,
JOHN T. WINSHIP,
BURTON MANSFIELD,
ROBERT J. MERRILL.

New York, June 13, 1916.

The following is the report of the Committee on Blanks for 1916, as amended and approved by the Executive Committee of the National Convention of Insurance Commissioners at its meeting held in New York City on June 12, 1916, such approval making the report the act of the Convention:

New York City, May 17, 1916.

To the Honorable Joseph Button, Chairman of the Executive Committee of the National Convention of Insurance Commissioners:

Sir.—The Committee on Blanks herewith submits the following report of the proceedings of its meeting held at the Hotel Manhattan in New York City, May 15, 16 and 17. The following changes in the various annual statement blanks are submitted for adoption by the Executive Committee:

Stock Fire Blank.

1. Page 2, line 16. Add to present line the words, "per Schedule A."

Reason.—To show connection between this line and the schedule.
2. Page 5, line 29. Eliminate word "liabilities," the amended line to read "total."

Reason.—To eliminate an inaccuracy.

3. Page 20, Schedule N. Amend caption by inserting after the word "balances" the following "(according to company's records)," the amended caption to read, "Showing all balances (according to company's records) carried in each bank or trust company on the last day of each month of the year 1915."

Reason.—To indicate that bank balances are to be reported in accordance with the company's books and not in accordance with the bank book balances.

Mutual Fire Blank.

4. Page 2, line 15; page 5, line 34; and page 20, Schedule N. Amend to conform with the changes suggested for the stock fire blank.

Reasons.—See paragraphs 1, 2 and 3.

5. Page 7, line 7. Amend to read, "Total dividends paid policyholders from organization of company (less dividends received on reinsurance) \$....."

Reason.—To indicate that net dividends is the information desired at this point.

Life Blank.

6. Page 3, line 3. Amend to read as follows:

3. (a) For total and permanent disability:
Premiums waived during the year.. \$.....
Payments made to policyholders
during the year.....
- (b) For additional accidental death benefits

Reason.—To set forth clearly the transactions relating to total and permanent disability benefits; recommended by the Sub-Committee after conferences with representatives of the life insurance companies.

7. Page 5, line 35. Insert after the word "policyholders" the following: "to and including (month).....(day)..... 1916," the line as amended to read, "Dividends declared on or apportioned to annual dividend policies payable to policyholders to and including (month).....(day)..... 1916, whether contingent upon the payment of renewal premiums or otherwise."

Page 5, line 36. Insert after the word "policyholders" the following: "to and including (month).....(day)..... 1916," the line as amended to read, "Dividends declared on or apportioned to deferred dividend policies payable to policyholders to and including (month).....(day)..... 1916."

Reason.—To indicate clearly what proportion of these dividends are declared or apportioned and set up as a liability by the companies.

Note.—The references to page and line numbers and dates are made to the 1915 Convention Blank. Change year dates and renumber lines in all blanks where necessary.

Note: AMENDMENT BY EXECUTIVE COMMITTEE**"Miscellaneous Blank"**

"Supplementary Schedule P." This schedule to be amended so as to provide for inserting on the title page the name of the company making the return. (See paragraph 14, page 3.)

8. Page 7, line 28. Amend to read, "Losses and claims settled during the year, in full \$.; by compromise \$.; by rejection \$."

Reason.—To correct previous inaccuracy and provide place for claims rejected.

9. Page 8, line 1. Amend to read, "Gross premiums received during the year per items 12 and 18, page 2."

Reason.—To indicate that premiums for total and permanent disability benefits are not to be included with the life premiums.

10. Page 10, line 10. Amend to read, "Balance of note assets at the end of year, per line 5, page 4."

Reason.—To indicate that this item is to agree with the corresponding asset item.

11. Page 16, Schedule D—Part 1. Change caption of column headed, "Year of" to read, "Date of." Divide the column appearing under above caption headed, "Maturity" so as to show both year and month, as follows:

		Date of	
		Maturity	Option
Year	Month		

Reason.—To facilitate the checking of the amortized value of bonds.

12. Page 18, Schedule E. Amend to conform to amended Schedule N of stock fire blank.

Reason.—See paragraph 3.

Miscellaneous Blank

13. Page 2, line 30; page 5, line 52 and page 31, Schedule N. Amend to conform to the changes indicated in the stock fire blank.

Reason.—See paragraphs 1, 2 and 3.

14. Supplementary Schedule P. This schedule added by vote of the National Convention of Insurance Commissioners in December, 1915, should be continued another year. The Committee recommends that the stars in the body of Parts I and II of this schedule be eliminated.

Reason.—To enable the departments to continue to get complete separation between liability and workmen's compensation business.

Fraternal Blank.

15. Page 5, line 5. Amend to read, "Present value of deferred death claims payable in instalments (state basis)."

Page 5. Insert a new line immediately following present line 10, to read, "Present value of disability claims payable in instalments (state basis)."

Reason.—To carry out the separation between death and disability claims contemplated by the blank.

16. Page 5, line 17. Amend to read, "Old age and other benefits due and unpaid No. including \$. present value of such benefits payable in instalments (state basis)."

Reason.—To provide the same treatment for above claims payable in instalments as is already provided for such death claims.

17. Page 5, line 29. Amend to conform with change indicated in the stock fire blank.

Reason.—See paragraph 3.

18. Page 7, "IX—EXHIBIT OF PERMANENT DISABILITY CLAIMS," line 2. Amend to read, "Claims incurred during the year (including commuted value only of instalment certificates)."

Insert new line immediately following present line 2 to read, "Interest addition on account of instalment claims."

Reason.—To secure uniformity.

19. Page 7. "X—EXHIBIT OF SICK AND ACCIDENT CLAIMS," line 1. Amend to read "Claims unpaid December 31, 1914, as per last statement, estimated liability."

Insert new line immediately following present line 1, to read ".crease in such estimated liability during the year."

Line 6. Amend to read, "*Claims unpaid December 31, 1915, estimated liability."

Reason.—To clearly indicate that such claims are estimated and to provide a place for the changes during the year in such estimates.

20. Page 7, "XI—EXHIBIT OF OLD AGE AND OTHER CLAIMS," line 2. Amend to read, "Claims incurred during the year (including commuted value only of instalment certificates)."

Insert new line immediately following present line 2, to read "Interest addition on account of instalment claims."

Reason.—See paragraph 18.

21. Page 12, "Schedule D—Part 1." Amend to agree with Schedule D—Part 1 of the life blank as amended in paragraph 11.

Reason.—To provide for the amortization of bonds held by fraternal benefit societies.

22. Page 17, Schedule N. Amend to conform to amendment indicated for Schedule N of the stock fire blank.

Reason.—See paragraph 3.

Fraternal Valuation Report Blank.

23. Line 24. Amend to read, "Admitted assets less \$. General or Expense Funds."

Reason.—To show clearly that General or Expense Funds are to be eliminated in making up the valuation exhibit.

Assessment Life and Accident Blank.

24. Page 2, line 17. Eliminate the words, "per Schedule A."

Reason.—To correct an inaccuracy.

25. Page 5, line 30. Amend to conform to amendment indicated for the stock fire blank.

Reason.—See paragraph 3.

26. Page 7. Amend Exhibits IX, X and XI to conform to the amendments indicated for like exhibits in Fraternal Blank.

Reason.—See paragraphs 18, 19 and 20.

27. Page 8. Insert new line immediately following present line 16 to read, "Losses and claims paid since organization of association \$."

Reason.—To provide a place for information which is desired by several insurance departments.

28. Page 17, Schedule N. Amend to conform to the change indicated for Schedule N of the stock fire blank.

Reason.—See paragraph 3.

CLASSIFICATION OF DISBURSEMENTS.**Life Blank.**

The Sub-Committee, consisting of representatives of Connecticut, Massachusetts, Illinois and New York, reported in part as follows:

The Sub-Committee has given very careful consideration to this subject. In its deliberations it has been ably assisted by a committee of fifteen representing the life insurance companies of the country. The Sub-Committee has come to the conclusion that it is not advisable at this time to accept the blank submitted by the Committee of Fifteen. (See also paragraph 6.)

Miscellaneous Blank.

Since the last annual meeting of the Committee on Blanks of the National Convention of Insurance Commissioners, the Sub-Committee has corresponded with the various casualty companies of the country in order to determine just how certain disbursement items are being treated in the annual statement blank. This correspondence has been carefully examined and submitted to the Committee on Blanks of the International Association of Casualty and Surety Underwriters. At a joint conference with this Committee, the undersigned Sub-Committee has decided to submit to the companies a new disbursement page containing in substance the following instructions and analyze such criticisms and suggestions as are made. The Sub-Committee expects to thus prepare a disbursement page for the miscellaneous blank for 1917 which will meet the needs of the lines of business written, reflect the best thought obtainable upon the subject and gain practical uniformity.

(1) Medical and surgical attention in behalf of the policyholder in liability contracts shall be reported in line 3, page 3. Such expense incurred in the adjustment of a claim and in behalf of the company shall be reported in line 18.

(2) Line 18, page 3. "Investigation and adjustment of claims" shall include amounts for rent, home office salaries, legal expense, postage, telephone, telegraph, printing and stationery, which are properly chargeable to investigation and adjustment of claims.

(3) In apportioning unassigned expenses between liability and workmen's compensation business, the following special rule is to be followed:

One-quarter of the amount paid under settled suits during the calendar year shall be added to the amount of unlitigated liability claim payments during the calendar year and the ratio of this sum to the sum of the above and all workmen's compensation claim payments paid during the calendar year shall determine the amount chargeable to liability insurance.

The assumption underlying this method is that it costs the same amount to adjust \$100 of unlitigated liability claim payments as to adjust \$100 of workmen's compensation claim payments; also as much adjusting expense is incurred in a litigated case—in addition to the legal expense—as in an unlitigated case and, as the average cost of a litigated case taken over a long term of years approximates four times the amount of the average cost of an unlitigated liability case, each suit settled shall be considered in this calculation for one-quarter of its average cost or approximately the same as an unlitigated liability claim payment.

(4) Line 32, page 3. "Inspections (other than medical and claim)" shall include amounts for rent, home office salaries, postage, telephone, telegraph, printing and stationery, which are properly chargeable to inspection service.

(5) Line —, page 3. "Salaries, traveling and all other expenses of payroll auditors" (new item) shall include amounts for rent, home office salaries, postage, telephone, telegraph, printing and stationery, which are properly chargeable to payroll audit expense.

Reinsurance Clearing House.

Manager Stewart of the Reinsurance Clearing House appeared before the Committee on Blanks with the request that the Committee extend the same treatment to the Clearing House that was extended by it to the Reinsurance Bureau last year. (See Committee report 1915, page 14.)

The Clearing House is composed of some fifteen fire insurance companies which are authorized to do business in practically every State of the United States, and accepts risks from its members and reinsures the same by distributing them among the companies composing the association in proportion to the participation of each member. Manager Stewart desires that the reinsurance of this Association be allowed to appear in Schedules E and F as a single item, together with a list of the members, the amount to be entered in every case to be less the participation of the particular company making the statement.

The Committee on Blanks considers that such method of reporting reinsurance effected through this Association a desirable one, but cannot amend the statement blank to conform with the above, for the reason that Schedule E is left for each company to fill out, and Schedule F is not printed in the Convention Blank. It is, however, the opinion of the Committee on Blanks that the States should accept in each of the schedules above mentioned the single item entry referred to.

Valuation of Securities.

There was brought to the attention of the Committee the fact that many of the companies which desired to avail themselves of the quotations appearing in the book of Valuation of Securities, published each year under the authority of the National Convention of Insurance Commissioners, cannot do so, owing to the fact that certain States require that the annual statements of insurance companies be filed too early in the year.

The Chairman of the Committee on Blanks was instructed to bring this matter to the attention of the Chairman of the Committee on Valuation of Securities, in order that he may present the matter to his Committee for action at the Convention of Insurance Commissioners in September next, to the end that it may recommend the necessary amendments to the laws of various States relating to the dates of filing annual statements.

Uniform Abstracts for Publication.

The Committee has been requested to consider the matter of the preparation of uniform abstract blanks for the publication of annual statements of insurance companies as required by certain insurance departments. A special committee was, therefore, appointed, consisting of the representatives of Michigan, Illinois, and Wisconsin, to prepare a report in connection with this matter, to be presented

at the next annual meeting of the Committee on Blanks in May, 1917.

Respectfully submitted,
HENRY D. APPLETON, New York
Chairman

S. E. STILWELL, Ohio
H. PIERSON HAMMOND, Connecticut
R. E. ANKERS, Virginia
H. L. PEABODY, Massachusetts
W. E. OTTO, Michigan
JAMES FAIRLIE, Illinois
W. J. CAMERON, North Carolina
J. W. ALLEN, Tennessee
L. A. ANDERSON, Wisconsin

Attest:

CHAS. S. CRIPPEN, Secretary of Committee.

Note.—Mr. J. F. Williams, of South Carolina, resigned as Actuary of the Insurance Department of the above State prior to the meeting of the Committee, and thus, automatically, ceased to be a member of the Committee on Blanks.

Messrs. I. E. Lang, of Maine, Felix Hebert, of Rhode Island, and S. W. McCulloch, of Pennsylvania, were unable to be present at the meetings of the Committee.

The report was adopted.

Mr. Hardison, of Massachusetts: While the Committee on Blanks is being given work to do in the future, I have another matter here that I would like to have referred to that committee and will ask the Secretary to read the resolution:

Whereas, it is the custom to issue insurance policies on credit, and

Whereas, it happens in many cases that it is impossible to collect the premiums on such policies, thus necessitating cancellation when the fact becomes apparent, and as a result entailing a loss for insurance furnished without consideration, which increases the cost to those who do pay, be it

Resolved, That the Committee on Blanks be requested to report an item for use in the annual statement blank which shall be suitable for obtaining from the insurance companies the amount of premiums earned on such policies which are now being lost on account of the credit system of furnishing protection.

The President: This matter is referred to the Committee on Blanks.

The President: The next thing on the program is "*Can Printed Statements be Made to Harmonize with Convention Forms*", by Hon. H. Pierson Hammond, Actuary, Connecticut Insurance Department. (Applause.)

Mr. Hammond: I hope the Chairman of the Committee on Blanks will stay. When I got through with this paper I was reminded of the young man who wrote a book and sent it to an author for criticism. The criticism came back that the covers of the book were too far apart. I must confess when I read the subject first I was not impressed with the importance of it.

(The full text of Mr. Hammond's paper will be found in the Appendix.)

The President: The paper is now before you for discussion. Are there any remarks? Any inquiries?

Mr. Craig, Actuary Metropolitan Life: I would like to ask if all of the States which require written statements accept the first four pages only in written form?

Mr. Hammond: I think that is the case.

Mr. Craig: Have the companies ever been advised that only the first four pages would be received?

Mr. Hammond: Yes. Several of the blanks have a specific statement to that effect.

The President: Any further inquiries? Any further business to come before the Convention?

Mr. McMaster: I have been requested to say that very few members have sent in their cards indicating their attendance at the Country Club tomorrow afternoon and the committee is anxious that the cards be sent in. You will find the table in the front part of the lobby or a box on the desk, and the members are urged to send in their acceptance cards.

Mr. Harper, of Colorado: I am pleased to comply with the request of the National Association of Casualty and Surety Underwriters and submit the following resolution, which I will ask the Secretary to read:

The following resolution was unanimously approved by the National Association of Casualty and Surety Agents in annual convention at White Sulphur Springs last Friday. I was instructed to ask you kindly to present the resolution to the Insurance Commissioners' Convention:

Whereas, in thirty-two States of this nation, within whose boundaries seventy-one per cent. of our entire continental population resides, workmen's compensation laws now prevail, and

Whereas, the certain receipt of indemnities provided under such laws is essential to the welfare of beneficiaries and to the permanent success of such laws, and

Whereas, upon employers rests the responsibility for such indemnity, the mere statement of which fact clearly indicates the necessity for workmen's compensation insurance of such soundness as to make certain the payment of all claims with promptness and in full, and

Whereas, despite the exercise of promptness in the payment of such claims, the unpaid and unmatured claims under workmen's compensation increase very rapidly, and

Whereas, the proper protection of the assured and the claimants clearly calls for all insurers, whether stock companies, mutuals, reciprocal exchanges or State funds, to provide and ever maintain adequate reserves both for unpaid losses and unearned premiums;

Be it, therefore, Resolved, by the National Association of Casualty and Surety Agents that the need for more effective reserve legislation in workmen's compensation States be brought to the attention of the Insurance Commissioners Convention at Richmond with the earnest and respectful request that steps be taken by that honorable body which will have the effect of stimulating such legislation.

GEO. D. WEBB,
Chairman Executive Committee.

On motion the resolution was referred to the Committee on Reserves Other Than Life.

Mr. Chorn, of Missouri: I desire to offer a resolution which I will ask the Secretary to read:

Be it hereby Resolved, That

Whereas, it is thought that all casualty and surety companies do not operate upon a uniform basis of productive cost for casualty and surety business, and

Whereas, it is thought that the productive cost of securing certain lines of casualty and surety business by certain companies is generally higher than that of other companies writing the same character of insurance in the same territory, and

Whereas, it is thought that certain casualty and surety companies permit their business in one State to cost them more than they allow as productive cost in other States after duly allowing for changed conditions, and

Whereas, the productive cost of all casualty and surety business is an essential element used by actuaries in ascertaining the adequacy of rates, and

Whereas, the rates for said lines of business should not be higher than a reasonable productive cost would warrant, and

Whereas, the Insurance Commissioners of all of the States in the United States are interested in the general welfare of the purchasers of casualty and surety insurance in their territory, and

Whereas, their rule providing for a twenty per cent. (20%) maximum productive cost of all employers liability business has proven satisfactory and beneficial to both the public and the companies, and

Whereas, it is now thought that the benefits of this ruling should be extended to all lines of casualty and surety business other than employers liability,

Now, therefore, be it Resolved, That the Insurance Commissioners here represented, appoint through its chair or _____ a committee of three (3) to consider the question of placing a maximum productive cost on all lines of casualty and surety business, and report their findings at a meeting of the commissioners to be held at _____ on _____ of December, 1916.

Mr. Chorn: I move the adoption of the resolution.

The President: The matter is before you. I have no particular suggestion to make, but we have too many special committees and if possible I should prefer that it go to a regular committee.

On motion the matter was referred to the Committee on Fidelity and Surety Companies:

The President: Mr. Button wishes me further to announce that you are invited to meet at this end of the hotel before you go on the automobile ride because he wants your pictures taken.

The Convention then adjourned to meet at 8:30 P. M.

ERRATA FOR PAGE 145

Clause 3 should read: "If it should be taken up, what action should be recommended and what course pursued, if any, particularly in reference to any congressional legislation which may be proposed in regard to it."

tary to read.

Whereas, the question of federal supervision has been presented to this Convention at various times in one form or another, and

Whereas, Congress has been asked at divers times to take action thereon, therefore, be it

Resolved, that the Committee on Laws and Legislation be requested to consider the question with a view to determine among other things,

1. Whether the matter is one for this Convention to take up.
2. Whether, if it be such a matter, the Convention should take it up, and
3. If it should be taken up, what action should be recommended and what cause furnished, if any, particularly in reference to any congressional legislation which may be proposed in regard to it.

The President: I have introduced this by request, and I would like to have it sent, with the consent of the Convention, to the Committee on Laws and Legislation.

The matter was so referred to the Committee on Laws and Legislation.

The President: I have a resolution offered by the Commissioner of Virginia which I will ask the Secretary to read.

Whereas, the granting of immediate annuities is based on a liability which is largest at the inception of the contract and diminishes annually thereafter, and

Whereas, the sale of such annuities is not popular with persons under sixty years of age, largely because of the fact that in many of the States companies are required to make valuations on a three and a half per cent. valuation, and

Whereas, the Committee on Rates of Mortality and Interest has shown the rate of interest received over a long period of years has been largely in excess of four and one half per cent.,

Therefore, be it Resolved, That for the purpose of enabling the companies to bring the benefits of annuities to a larger number of our people and also to grant larger annuities for a given consideration to old people, it is our conviction that such contracts should be valued on a four per cent. basis, and we favor a change in the law where necessary to secure this result.

This resolution was referred to the Committee on Rates of Mortality and Interest.

The President: As Chairman of the Committee on Union Central Life Insurance Company, I have a report here which I will ask the Secretary to read.

Report of Committee on Union Central Life.

The special committee to whom was referred the matter of the increase in the capital stock of the Union Central Life Insurance company begs leave to report that it has held two meetings since its appointment in April last, and has been actively engaged in investigating such facts as would throw light upon the situation which the inquiry involves. It has not, however, yet completed its business and desires to be continued for further consideration of the whole matter and for the purpose of more fully reporting thereon.

Respectfully submitted,

BURTON MANSFIELD,

Chairman;

FRANK H. HARDISON,

JESSE S. PHILLIPS,

JAMES R. YOUNG,

JOSEPH BUTTON.

The report was accepted.

The President: Are there any further reports? If not, we will proceed with the next order. The first paper on the program is "*Life Insurance from the Standpoint of a Layman*", by Hon. W. K. Chorn, Superintendent of Insurance of Missouri. (Applause.)

Mr. Chorn: Fellow Commissioners and gentlemen, the paper which I have prepared for you probably will not cover the subject in a way that you would like. In fact it is very much like a mother hubbard—covers everything and touches nothing. It is a very comprehensive subject and one that I should hesitate to deal with seriously without feeling that I would take up too much of your valuable time and exhaust your patience in trying to write a paper on the subject. It is one that many could write upon and still not do the subject justice. I have purposely refrained from using a figure or a single technical phrase. If you like the paper, why it is unnecessary to tell you where to applaud. If you don't like it, keep your peace.

(The full text of Mr. Chorn's paper will be found in the Appendix.)

The President: I hope you have not exhausted your remarks by that applause. Are there any remarks? Any discussion? Any questions to be asked? I am quite sure that the gentleman is ready to answer them.

The President: The next paper on the program is entitled "*Complaint Bureaus of Insurance Departments—Their Functions*", by the Honorable Frank Taggart, Superintendent of Insurance of Ohio. (Applause.)

(The full text of Mr. Taggart's paper will be found in the Appendix.)

The President: The paper is before you for discussion. Are there any remarks? This ought to bring forth some discussion.

Mr. Merrill, of New Hampshire: I would like to ask Judge Taggart in his reference to municipal courts of complaint if such courts now exist?

Mr. Taggart: Yes, in almost every city of any size there are municipal courts.

Mr. McMaster, of South Carolina: Are there any costs?

Mr. Taggart: The costs are taxed against the losing party.

Mr. Merrill: What is the extent of the jurisdiction of this court?

Mr. Taggart: There are no courts of complaint. There are municipal courts which handle all civil matters.

Mr. Winship, of Michigan: I was impressed very much with this paper. It seems to me that the existence of complaint bureaus is one of the strongest factors in bringing to the insurance companies the confidence of the people, especially in health and accident insurance. So far as the charge of complaint bureaus being exercised unjustly against a company, I do not believe there are many cases ever exercised against the companies. In my State I never take up complaints where there is any dispute as to fact. When there is a question of fact I say that must go to the courts. Where there is no dispute of fact, we have always been able to make a settlement that is satisfactory to the company. Once in a while a company will write me, "If you say we must pay this claim, we will pay it", and I reply always that I do not want any company to pay any claim because I say it must be paid, but because I have convinced them it ought to be paid, and as a rule we arrive at a very just settlement in that way.

Mr. Hardison, of Massachusetts: I want to say that since that report from which Mr. Taggart quotes was printed the Legislature has granted the appropriation and we have an appropriation for the expenses of a complaint bureau.

Mr. Potts, of Illinois: My experience with complaints has been very similar to that told by Commissioner Winship. We have a great many complaints coming to our Department. They are usually ground out by the head of the department handling that line of insurance on which the complaint is based. I do not pass on many of them and not on any of them unless the person in charge of that division of the department requests me to do so. But we have an unalterable rule that every complaint must be presented in writing. We do not want the complainant to hire an attorney if a small amount is involved. When he comes to the Department we do not listen to his story, but have him tell it to a stenographer and the stenographer gives it to the head of the division of the Department and he dictates a complaint. A copy of that complaint is then sent to the company. He dictates it as near in conformity to facts as told to the stenographer as can be done. We require the company to file an answer in writing, and if we cannot dispose of the matter then, we give them a hearing. It is seldom that we have to hold a hearing. Generally the company will present such answer as will show whether they are in the right or wrong, and if right, we dispose of it accordingly. We have no law that gives us authority to do these things, but as a matter of convenience both to the company and the complainant we grind it out with as little trouble as possible, and my experience has been the same as Commissioner Winship's—that it is

almost always satisfactory to the person making the complaint and the company.

If it is a question of fact I take the same stand as Commissioner Winship, that we cannot interfere. That opens a gate frequently for companies to say there is a question of fact when as a matter of truth there is not, but I never let them fudge on me. If there is an honest dispute between the complainant and the company I do not interfere, but if not, we grind it out.

There are complaints coming from ethical rules of various companies. We have a number of cases of twisting and it appears that the companies are anxious to dispose of these matters and anxious to have the Department take action, but we have no law for doing so. I have often thought that if the companies would establish some sort of court of their own whereby all ethical violations would be referred and let that court dispose of such questions and the companies abide thereby, it would be a good thing. I do not like to see the companies enter into any more co-operation methods than exists now, but I believe that if they would all agree to abide by the decision of some court established to pass upon the ethical rules the Departments would be relieved of a great deal of work.

In the handling of these complaints I know of no better methods than we now have. As it is now the Commissioner brings them before him and disposes of the complaints, and I believe that method should be followed as vigorously as the present conditions seem to demand, and I believe that justice is administered possibly as well as it might be.

Mr. Cleary, of Wisconsin: I was interested in Commissioner Hardison's remark that the appropriation had been made and I want to ask Mr. Hardison what powers are given the Commissioner and what your method of administering them?

Mr. Hardison: The appropriation is simply an appropriation not specified at all. The request for the appropriation for that purpose was backed up by the statement, the argument that you have heard tonight. That showed the purpose for which the appropriation was desired and the Legislature made the appropriation. It is not our custom to decide questions of fact that come up between the companies and the insured. What we do is to hear both sides and if possible bring the two to an amicable adjustment of differences. Generally we succeed, but not always. When we cannot do that we simply state that the case will have to go to the courts for consideration and determination.

Mr. Young, of North Carolina: I just asked the Commissioner from Massachusetts as to what per cent. of these complaints go to the courts and he says about 1 per cent., certainly not over 2 per cent. In my State we have the express authority given in addition to the fact that the general law of supervision would permit. We hear a great many of these complaints. Possibly 50 per cent., certainly about half, are decided with the company and about half with the

assured. Most of those decided against the company are not the fault of the company, but of the agents of the company.

The President: I think it is the rule that a very small percentage indeed are left to the courts.

The President: The next paper on the program is, "*How Can the Cost of Insurance be Reduced?*" by Hon. H. Denny O'Neill, Insurance Commissioner of Pennsylvania. I believe Mr. O'Neill is not here personally, but by substitute, and that substitute is always with us. We will be glad to hear from him. (Applause.)

Mr. McCulloch, of Pennsylvania: Mr. President, I just want to say one thing. I don't know who was responsible for forcing a subject like that on the Insurance Commissioner of Pennsylvania who had only been in office for a month, but they didn't know Sam McCulloch if they thought the Insurance Commissioner of Pennsylvania was going to tackle that subject which all the other Insurance Commissioners of the United States are afraid to tackle, and at my suggestion he simply ignored it.

The President: The gentleman from Pennsylvania well knows that Commissioners who have been in office only a month are much better qualified to tackle the question at that time than at any other.

Mr. McCulloch: That is true, the less he knows the more he can say. When the Commissioner received the request to write a paper on "*How Can the Cost of Insurance be Reduced?*" he said to me, "Will you write an article for me?" I said, "No, because I know too much about it."

The President: With that explanation, which I suppose we will have to accept, even if it be at our own cost, we will pass on to the next subject, "*Anti-Discrimination Laws in Fire Insurance*", by Hon. George M. LaMonte, Commissioner of Insurance of New Jersey. (Applause.)

(The full text of Mr. LaMonte's paper will be found in the Appendix.)

The President: Gentlemen, I do not know who was responsible for the failure to notify him to which Mr. LaMonte refers, but I apprehend it was the fault of Uncle Sam and not South Carolina. I am also quite sure that failure to receive the notice had no effect upon the quality and character of the paper. We are all very much obliged to Mr. LaMonte and all the others who have prepared papers. Are there any inquiries, any remarks or any questions on the subject?

Mr. Wilson, of Kansas: I would like to know how New York gets along with their regulation of rating bureaus instead of the regulation of rates. Kansas is undertaking to regulate the rates, but it seems to me that it would be better perhaps to undertake to regulate the bureaus. I understand that under the New York law that the elimination of discrimination comes with the inspection and regulation of the bureaus rather than the rate. I have thought a good many times that Kansas has gone at the rate question wrong, per-

haps too largely with the idea of reducing rates rather than eliminating discrimination.

Mr. Phillips, of New York: New York has, I judge from the paper read by Mr. LaMonte, practically the same law as New Jersey. We have the power to investigate on hearing and to remove a discrimination. We have, however, no power to reduce a rate. That is, we have taken the position that we have no power to inquire into the reasonableness of the rates except as between similar risks. Our rate-making bureaus are subject to the supervision and regulation of the Department. We have the right to inquire and to call for any information they have in their possession showing us how the rate was fixed, the schedule and everything that entered into the making of the rate and then determining whether or not they have unfairly discriminated between similar risks of the same hazard, and from what little I have had an opportunity to observe, it seems to work satisfactorily. We maintain a regular rate-making regulation bureau in the Department with an expert at the head. A great many complaints are received charging unfair discrimination. For instance, a property owner would complain that the rate on his risk is considerably higher than the rate on a similar risk. He is required to present his complaint and then we notify the rate-making bureau or the exchange of the complaint and we have a hearing and very frequently as a result of the hearing we find that they are unfairly discriminating in those risks and upon the whole I think it works satisfactorily. We do not take the position that we have a right to make rates; we steer clear of State rate-making, but try to enforce to the limit the law as to unfair discrimination, and upon the whole, as stated by Mr. LaMonte of New Jersey, I think it works out to the interest of the insuring public and ultimately I think it will result in a greater satisfaction so far as the rates are concerned among the insurers.

Mr. Young, of North Carolina: In the matter of rate-making we have a law in our State that I believe we are getting good results from and satisfactory. Under this law we require that every rate made by a bureau or company shall be filed in detail with the Department and also a copy given to the assured and that this course shall be followed whenever a rate is changed. We also have the New York law which gives to the Insurance Commissioner power to pass upon any complaint as to discrimination in rates and power to have it corrected. In addition to this we have the Massachusetts law which gives us the right to hear and pass upon any rate that is complained of as unfair and unjust, but with the authority only to give our judgment or recommendation as to what our opinion is of the rates. Under this law, passed by the Legislature in 1915, there has been only one case in which the Insurance Commissioner decided against the bureau and the bureau corrected it. We also require that a synopsis of every rate, that is, the basis, the deficiency charges, the credit charges or the rate as made shall be stamped upon every

policy issued. This has brought about in our State the elimination of a great deal of the prejudice and complaints about the rates of fire insurance companies being unfair and unjust.

Mr. Winship, of Michigan: I want to ask Mr. LaMonte a question, and the reason I do is that I presume there is no one that had any more stirring time with an anti-discrimination law than I did. The people who are opposed to the anti-discrimination law in my State are not opposed to anti-discrimination—they are opposed to high fire insurance rates. I have never found a man in my State, and I have had bitter discussions in the newspapers, that will discuss anti-discrimination; they discuss the profits the insurance companies make, and I was going to ask Mr. LaMonte if that is not the case in his State?

Mr. LaMonte: They talk about it all, the high rates the insurance companies charge, and the losses paid.

Mr. Winship: In my State they say that the anti-discrimination law would cost the people of Michigan \$5,000,000 more for their insurance. The total premium income is only \$9,000,000. We are going to have trouble in our State this year simply on account of the fact that they don't discuss anything except the high cost of fire insurance. One trouble, too, is the cowardice of agents. The agent when he finds he has to raise the rate on a client says he raises it because of the law. He does not raise it because of the law. He says his company is forced to raise it. The companies buy their rates from the same bureau. I think that the agents are the cause of a great deal of our trouble. On one or two cases we find the managers writing that the company must change this rate. I contend that the company did not have to change the rate; it can file a deviating rate if it wishes to. And that is the trouble we are having, because the companies are not frank and saying "we are going to change this rate because we want to, because it is what we need."

Mr. Cleary, of Wisconsin: I am very much interested in this subject because it is a live question in Wisconsin. I want to ask the Commissioner of New York about his method of handling the complaints. As I understand, the rate that is finally furnished is produced by the application of the schedule, charges and credits being taken into account. The point I have in mind is whether or not it was a practice or a provision under your law for a department employee to apply the schedule for the purpose of determining the correctness of the rate applied by the bureau in determining whether or not there was a proper application of the schedule and a proper application of the charges?

Mr. Phillips, of New York: We send our own inspector to examine the property and of course we apply their schedule.

Mr. Cleary: You do not rely upon the testimony of the bureau representation, but in order to determine whether it is right you have a competent man apply the schedule upon which the rate is made?

Mr. Phillips: Yes.

Mr. Wilson, of Kansas: Don't you find that the percentage of deficiency charges against a certain risk will modify the rate more than anything else?

Mr. Phillips: Yes. Last winter I made a ruling which was finally accepted. It was in the application of a rate where the bureau had said that a wall must be 16 inches, that that was their standard. In the application and in the making of a rate they made absolutely no allowance for a 12-inch wall, and whether we have a right to or not we held that they must give some credit for that although it was not of the thickness they required and which they said was insufficient fire protection. They modified their rules in that respect and they are working now at some other method of allowing a credit for a wall of that kind.

The President: Unless there are some further inquiries or discussion, I take it the motion for adjournment is before us.

The Secretary: I have an announcement. President Hurrell calls a meeting of the Pelican Club in this room immediately following this session of the Convention.

Mr. Young, of North Carolina: I want to ask the members of the Convention for a little change in the program affecting Thursday night and Friday. I notice that the Actuarial Bureau is put upon the program for Friday morning and I want to ask that the Convention will allow the Actuarial Bureau matter to be taken up before the committee on Thursday evening and that the committee may hear one or more of the managers of this bureau, and that the matter of the work of the Committee on Examinations, which carries an executive session, be placed on the program for Friday morning.

The Convention assented to this change.

Mr. Hardison called a meeting of the Committee on Reserves Other Than Life immediately after adjournment of the Convention.

Mr. Appleton, of New York: A request has been made by a special committee of the National Board of Fire Underwriters to present to the Committee on Blanks a proposition they have under consideration. I find that we have eight members of the Committee on Blanks present and I would suggest that the committee meet in this room tomorrow morning at 9:00 for the purpose of giving this committee an opportunity to make such statement as they may desire.

Mr. Phillips, Chairman of the Committee on Laws and Legislation, called a meeting of that committee for Thursday morning at 9:00 o'clock.

The Convention then took a recess until Thursday morning at 9:30.

MORNING SESSION.

September 28, 1916.

The Convention was called to order at 9:30 A. M. by the President.

The President: Are there any communications this morning? Any reports?

The Secretary read the following report of the Committee to Draft Uniform Fire Insurance Policy:

Report of Committee to Draft Uniform Fire Insurance Policy.

Your committee to draft a uniform fire insurance policy begs to report that pursuant to resolution adopted at the December, 1915, meeting of this Convention, it has considered further suggestions and amendments to the standard fire policy as adopted by the Convention in December, 1914. Since the so-called Convention form was adopted in December, 1914, we are advised that the policy so presented has been adopted by the States of North Carolina and South Carolina and by the State of Pennsylvania with slight modifications.

In addition to certain minor changes in the form adopted by the Convention, three changes in the policy form have been suggested which are of some moment. These changes relate to the mortgagee clause, the umpire clause, and the clause relating to the company's option to rebuild or replace damaged or destroyed property. These suggested changes have been having the careful consideration of the committee and it is expected that a final report will be presented at the adjourned meeting to be held in December, 1916. Your committee intends to act definitely upon the subject prior to such meeting and hopes that the policy form which it will then recommend may be printed a sufficient time in advance of such meeting so that copies may be transmitted to each department for consideration to the end that final action may be had at such adjourned meeting.

Respectfully submitted,
M. J. CLEARY, Chairman;
JESSE S. PHILLIPS,
JAMES R. YOUNG,
SAML. W. McCULLOCH,
CAREY PIERSON.

The report was adopted.

The Secretary: I might present at this time the report of the Secretary-Treasurer.

**NATIONAL CONVENTION OF INSURANCE COMMISSIONERS.
Report of F. H. McMaster, Secretary-Treasurer, for the year ending
September 15, 1916.**

Balance brought forward from preceding year.....\$1,186.94

Receipts.

Received on account of 1915-1916 assessment:
Montana, Connecticut, South Carolina, Kentucky,
Michigan, Tennessee, Wisconsin, Vermont, Ohio,
Rhode Island, Illinois, Virginia, Pennsylvania,
New Jersey, New Hampshire, Washington, Maine,

New York, West Virginia, Iowa, Colorado, Wyoming, Missouri, Massachusetts, South Dakota, California, Oregon, Texas, \$50.00 each.....	1,400.00
Florida	25.00
Louisiana, 1915-16 assessment, \$40; 1916-17, \$40.....	80.00
Interest on savings account.....	48.86
Sale of Proceedings.....	28.05
Total.....	\$2,768.85

Disbursements.

For stenographic report and services at Monterey Convention....	\$200.00
Incidental expenses Convention.....	5.65
Framing resolutions on death of Hon. A. E. Hebert.....	2.35
Stationery, stamps, telegraph and express.....	29.78
Miscellaneous printing	61.25
Exchange	2.80
Engrossing resolutions on death of Hon. Theo. MacDonald	10.00
Membership National Fire Protection Association.....	25.00
Incidental expenses	9.70
Printing and binding Monterey proceedings.....	649.50
Postage on same.....	40.70
Stenographic services New York adjourned meeting.....	25.00
Printing New York adjourned meeting proceedings.....	60.40
Printing 700 copies of same to be bound with next annual proceedings	62.50
Stenographic services St. Louis meeting.....	20.00
Clerical services	45.00
Salary of Secretary.....	200.00
Total.....	\$1,449.63
Balance on hand.....	\$1,319.22
	\$2,768.85

The President: You have heard the report of the Secretary-Treasurer. That I take it should first be audited before it is accepted, and if there is no objection I would suggest that it be sent to some members of the Examination Committee for the purpose of being audited. I will appoint for the purpose of auditing this report, Mr. Scott, Mr. Henry and Mr. Chorn.

The President: If there is no further business, we will proceed with the regular program. The first thing on the program after communications and reports is a paper entitled "*To What Extent is Social or Welfare Insurance Feasible in the United States and How Should It be Done?*" by Hon. Rufus M. Potts, Insurance Superintendent of Illinois. (Applause.)

Mr. Potts, of Illinois: Mr. Chairman and Gentlemen of the Convention, before beginning my address I want to express my high appreciation of the article included in the address of the President on the subject of Social or Welfare Insurance. I appreciate the President's able discussion of this subject for several reasons, principally because he differs with me as to the method of effectuating this system of insurance. I may be wrong. My study and enthusiasm

of this subject do not necessarily prove that I am right. With youth and earnestness I have delved into this question, but with the advantages of age and the experience of the President in dealing with economic, social and insurance matters, his judgment is well worthy of serious consideration.

I may err in my judgment upon this question. I may err in my departmental rulings in dealing with this subject, and both will be of but little consequence, but our government cannot afford to make a mistake in its dealings with this branch of insurance. My theory of the administration of this insurance is through the National Government—the central body. I am convinced that Federal administration is the only method of effectuating welfare insurance, so as to reach the masses and carry out its full purposes, but I have the public in mind only when I arrive at this conclusion. Insurance is in its infancy today, if the theories in which I believe are put in operation. Insurance, to meet its economic and social demands, must become universal. To be universal it must be compulsory. When insurance becomes universal, insurance premiums then become a tax, and every system of taxation and the administration of tax funds should be through governmental mediums, and, in order that no tax becomes burdensome or oppressive, the cost of collecting and disbursing same should be accomplished without emolument or profit of any kind or character, and some governmental function must be employed in order to do this.

This additional and far-reaching governmental function, with its great army of employees, whose service extends to the supervision of a compulsory insurance system, covering the entire masses and granting benefits to every phase of human existence, may carry with it such additional governmental power and public control, that our great Republic might assume autocratic functions. The political party, in power at the time that the great institution of insurance is assumed and made effective by the government, might perpetuate itself. The perpetuation in power of one political party, under a republican form of government, is not only unwise but extremely dangerous. Systems of party administration of public affairs would grow up, until it would become a monarchical party, subject only to constitutional limitation, and then our system of government would become a constitutional monarchy, instead of a free republic. While I am convinced that my theory of effectuating welfare insurance is the only and correct method from the standpoint of the people, yet I sometimes ponder over this question, as to its possible effect upon our government.

(The full text of Mr. Potts' paper will be found in the Appendix.)

The President: This matter is now open for discussion and consideration. Mr. Potts, I am sure, will be very glad to have the matter discussed and will be glad to answer any questions any of you wish to ask.

Dr. Jordan, of the Treasury Department: I would like to ask the author of that interesting paper how he would expect to accomplish

that result. Is it possible under the Constitution of this country as now written, that that form of insurance could be nationalized, or would it be necessary to secure an amendment to the Constitution to effectuate the plan which he has in mind?

Mr. Potts: Briefly, I wish to say, that I am thoroughly convinced that the plan suggested in my paper is not only practicable, but is entirely within the provisions of the present Federal Constitution. The preamble, in setting forth the fundamentals of the Constitution, contains the clause "promote the general welfare," and in the body of the Constitution Congress is required to provide for the "general welfare" of our people and of the United States, and, in my judgment, welfare insurance comes clearly within the present "welfare" provisions of the Constitution.

The President: Any further questions or discussion?

Mr. Nesbit, of Washington, D. C.: I would like to introduce Mr. Stuart, who is Chief Statistician of the Bureau of Labor, who wishes to extend an invitation to the Commissioners.

The President: The Convention will take a recess while Mr. Stuart presents the invitation.

Mr. Stuart: I am here to invite the Convention, its members severally and in combination to attend a Conference on Social Insurance called by the International Association of Industrial Accident Boards and Commissioners for December 5-9 inclusive at Washington, D. C. The principal subject will be workmen's compensation. The second will be sickness benefits or health insurance and all the agencies providing for such, either public or corporate; third, old age insurance, pensions and retirement allowances; fourth, social insurance as applied to women, widows, mothers' pensions, orphans' allowances, and maternity benefits whether public or corporate; fifth, unemployment insurance.

Now, I will just say that the International Association of Industrial Accident Boards and Commissions was formed to give the officials charged with the duty of administering the various workmen's compensation acts in force in the United States and Canada an opportunity to meet for the purpose of discussing the various difficulties in the way of the administration of other organizations similar to this in every way, as I understand your organization. They have had two annual meetings and this is the third, which has been postponed now twice. The program, I am very sorry to say, is not yet finished. I will leave here a tentative program which somewhat outlines the general topics and I hope to be able to get the names of the membership and furnish them a finished program in the course of ten days.

The Bureau of Labor Statistics became a member of this Association because we administer the Workmen's Compensation Act of the Federal Government. That now passes into the hands of a commission, but that commission has not yet been formed. The Bureau of Labor and the Department of Labor still retains its interest in this

matter because of the close connection of the whole general subject with practically all of the work in which the Bureau and the Department is engaged.

The program, I wish to assure you, will be very complete, both sides being given a chance on all the subjects practicable. The President of the United States will make an address and there will be an address by one member of the cabinet and perhaps by more than that.

I thank you gentlemen for the opportunity to call attention to this matter and I hope we will see you each and all in Washington.

Mr. Nesbit, of Washington: I only want to say that since this invitation is given for the 5-9 of December in Washington, I should like to invite this Convention to hold its December meeting in Washington.

The President: I take it the Convention will not take any action, but you are invited to meet December in Washington, where the subject of Social Insurance will be discussed in all of its aspects.

The President: The Convention will now reconvene. The next paper on the program is, "*How Far Should a Life Insurance Company Go in Conserving the Lives of Its Policyholders*", by Hon. E. R. Harper, Commissioner of Insurance of Colorado. (Applause.)

Mr. Harper: Mr. President, Ladies and Gentlemen: I found it a great deal easier to accede to the request of our genial and compelling Secretary in July than to qualify on that request in September. I had flattered myself to believe that I had the only deputy in the country to protect me and direct me and keep me out of trouble, but lo and behold I find that Pennsylvania comes up with the only qualified deputy who very properly informs his chief not to pay any attention to the orders of the Secretary. We will have an understanding back at Denver when we return. But I am duly thankful for one thing on this occasion. In fact I always have the best of the situation before I get through with it. That is that the Secretary and Committee on Programs were kind enough both to me and to yourselves not to order me to tell all I don't know about how far a life insurance company should go in conserving the lives of its policyholders. It does not take so long to tell you what I do know.

(The full text of Mr. Harper's paper will be found in the Appendix.)

In conclusion Mr. Harper said: "My friend Judge Potts sent a warning note clear and unmistakable when he said that when the hour comes that this government will take the insurance of this country into its hands monarchical government is imminent. We never can have it otherwise, and it is not necessary for even a common every-day man like myself to assert that the government has never yet in state or nation shown the ability to any great degree to conduct commercial enterprises economically, and I want to call to the attention of my friend the Judge that he should be careful when he infers that the insurance issued and controlled by the government is going to be without much if any cost.

The President: The paper is before you for discussion.

Mr. Potts, of Illinois: I don't want to discuss the paper of my good friend Mr. Harper, but I want a little private conference with the Secretary to tell him that hereafter I be put on the program after Mr. Harper.

The President: The Convention does not prohibit any one from speaking after Mr. Harper at the present time. We would be very glad to hear from Judge Potts. If there is no further discussion, I want to say a word. The Commissioner from Colorado, with all due respect to the gentleman from Pennsylvania, still has the only Deputy Commissioner. I won't even say who the Deputy Commissioner is. I also want to say incidentally that that gentleman to whom we referred last night as a new Commissioner and who had worn his official title but a month did accept the invitation of the committee to present a paper on the subject assigned to him and we have not yet fully understood why he did not appear. But, of course, as I have said, there is only one Deputy Commissioner. We have others who bear that title, and I am very sure that from those others we are delighted to hear, and it is upon the program that one of them is now assigned to present to us a paper entitled, "*Automobile Insurance—Should Fire Companies be Authorized to Give Full Coverage, Including the Person?*" by Hon. Henry D. Appleton, Deputy Superintendent of New York. (Applause.)

(The full text of Mr. Appleton's paper will be found in the Appendix.)

The President: As the gentleman from Illinois said he would like to come after the gentleman from Colorado, I have some such feeling myself at the present time. The matter is before you for discussion and consideration.

Mr. English, of Iowa: This subject is one of great importance in all the States. It has been one of consideration in Iowa. We have a statute in reference to automobile coverage and under this statute it became my duty to make a ruling that I think works a hardship on the fire companies. The very illuminating paper, which I presume will be referred to the Committee on Laws and Legislation, is entitled to consideration by this Convention. I think Section 110 of the New York law is a fair standard and I find myself in absolute accord with my friend Mr. Appleton, and, therefore, I wish to offer a resolution to be referred to the Committee on Laws and Legislation:

In view of the widely different coverages upon automobiles now permitted fire writing companies under the present statutes of the several States, and this lack of uniformity being an undesirable condition, not only from the standpoint of the insured, but the insurer as well, be it

Resolved, That this Convention does hereby suggest and recommend legislation in the various States fixing the standard of automobile coverage for fire writing companies to include all hazards except to the person.

The President: Are there any remarks on the paper? Any questions any of you would like to ask? If not, we will go on to the next topic, a paper entitled, "*The National Government as a Preferred Creditor in Surety Insurance*", by Hon. Wm. M. Shehan, Insurance Commissioner of Maryland. (Applause.)

Mr. Shehan: Ladies and Gentlemen of the Convention, I do not know any very great reason why a subject of this difficult character should be inflicted on me. I do not believe that there is any more uninteresting paper to be presented before this Convention than this subject will be because it is merely the wading through of a great many decisions and statutes enacted and arriving at conclusions on my part that are not very definite and certainly are not very satisfactory, and aside from that it is almost impossible to write a comprehensive paper on this subject in all of its phases without going entirely beyond the range of a paper to be read on an occasion like this, and I am very much afraid that I have gone so far with it and to such lengths that I shall be tiresome before it is concluded. I will, however, omit a reading of the citations and the statistics as far as I can conveniently do so, and while there are a great many things that I have passed up in this paper, matters of law that I do not know and probably will not be able to throw any light upon, if there is any question arising during the reading, I shall have no objection to any one's interrupting me, and if I can aid in any way, I shall be glad to do so, because the paper to some extent involves a great many legal propositions.

(The full text of Mr. Shehan's paper will be found in the Appendix.)

The President: The matter is before you for discussion. I will ask first if there are any Commissioners who wish to discuss the matter or ask questions. If not, we would be glad to hear from Dr. Jordan.

Mr. Potts, of Illinois: I suggest that we hear from Dr. Jordan. I have had much correspondence with him and would like to hear his views presented.

Dr. Llewellyn Jordan, chief of Section of Surety Bonds, Treasury Department. The subject of the treatment of domestic special deposits is one to which I have given considerable study in connection with my official duties as chief of the Section of Surety Bonds in the Treasury Department.

I might state that when I was placed in charge of the bonding work of the Government as performed by the Treasury Department I discovered that surety companies doing business with the Government were reporting their domestic special deposits in different ways. By way of illustration: It was found that some of the companies reported their deposits made with the Insurance Commissioner of the State of Virginia as general deposits, while other companies taking an entirely different view of the matter, reported their Virginia deposits as special deposits. This difference of treatment suggested to me the necessity of considering the laws of the various States with a view to determining what domestic deposits should properly be classed as "special deposits" and what as "general deposits." I was engaged in this work for about 18

months, acting in conjunction with the Insurance Commissioners of the several States, and availing myself, at the same time, of such information as the companies themselves had compiled bearing upon the nature of their deposits with the several States, including the deposits made in the Canal Zone, the territories of Alaska and Hawaii, the Island of Porto Rico and the Philippines.

It will be recalled by some of the Commissioners that the question of the treatment of domestic special deposits was brought up for consideration at the Spokane Convention in 1912, and the result of the effort to dispose of this rather interesting question since that time is well known to the members of this Convention.

After the Government, as a result of the investigation undertaken by the Section of Surety Bonds of the Treasury Department, as explained, had been compelled to classify those States which properly fell within the special deposit class, it was deemed advisable to invite the representatives of the surety companies, acting through the Surety Association of America, to present their views and reasons why the Government, in determining the surplus of the companies annually and at the end of each quarter, should not deduct these special deposits, less corresponding liabilities, as non-admitted assets.

The question of the treatment of these domestic special deposits, as well as the treatment of foreign deposits, was argued at length before the Solicitor of the Treasury by the representatives of the surety companies and the representatives of the Government. Mr. J. Kemp Bartlett of the United States Fidelity and Guaranty Company of Baltimore, Maryland, Mr. Charles W. Fletcher, Comptroller of the Massachusetts Bonding and Insurance Company, Boston, Massachusetts, and Mr. S. Hazen Bond, representing the American Surety Company of New York, appeared on behalf of the surety companies. Mr. Joseph S. McCoy, Government Actuary, and Dr. Llewellyn Jordan, chief of the Section of Surety Bonds, both of the Treasury Department, represented the Government. The representatives of the surety companies insisted that the Federal Government was a preferred creditor with respect to such special deposits, basing their contention upon the provisions of Sections 3466, 3467 and 3468 of the United States Revised Statutes (Edition of 1878).

This view was opposed by the representatives of the Government, who claimed that the securities deposited by surety companies with the Insurance Departments of special deposit States were held in the nature of trust funds, and, in the event of the insolvency of the companies, the securities so held were to be first applied to the payment of claims against the companies asserted by the contract and policyholders residing within the territorial limits of the States. After the liquidation of the claims asserted by this class of preferred creditors, then the claims of the Federal Government took priority and preference over the claims of the general creditors as against any amount remaining of the trust funds.

The Solicitor of the Treasury held, with some hesitation, after a careful and exhaustive review of the numerous decisions of the courts, that the Federal Government was a preferred creditor over all other creditors with respect to the distributions of such trust funds in special deposit States. He added, however, in his opinion, that the question was one which was not free from doubt, leaving the matter open and in this shape for presentation by the Treasury Department to the Attorney General of the United States.

The same persons who argued their respective views before the

Solicitor of the Treasury appeared before the Assistant Attorney General of the United States, to whom the matter had been referred and the same views reargued before that official.

During the progress of the argument, Mr. J. Kemp Bartlett stated, as I now recall, that he had been appointed as one of the receivers of the United Surety Company of Baltimore, Maryland, to represent the general creditors of that corporation, and that he proposed to take the view that the Federal Government was not a preferred creditor as he had previously argued before the Solicitor of the Treasury. It was mutually understood at the time that this statement was made by Mr. Bartlett that an effort would be made in accordance with his statement to have the question in its various aspects and phases passed upon by the Court of Appeals of the State of Maryland, in the payment of the claims filed on behalf of the Government against the estate of the United Surety Company.

The Assistant Attorney General was inclined to take the view that the United States was not a preferred creditor as to special deposits, basing his view upon the statement that each State has the right to prohibit a foreign bonding company from doing business within it, and, of course, this included the right to make conditions on which the business may be done. He stated that it was difficult to precisely define what a special deposit was, but assuming that it was intended to cover a deposit of moneys, bonds, or other securities with a State officer in trust to apply first, to the payment of claims of the citizens of the State, he concluded that a valid trust was thereby created and the United States was not one of the beneficiaries of such trust. With this course of reasoning he thought that the provisions of Sections 3466 and 3467 of the United States Revised Statutes would not apply with respect to the claims of the Federal Government, which would otherwise give the Government the right to claim a preference in the distribution of such trust funds held in the nature of special deposits.

Upon the theory advanced by the Assistant Attorney General, and, acting under the advice of the Department of Justice, the Treasury Department, as a matter of administrative procedure, deemed it advisable to follow the action of the Insurance Commissioners as announced at the Burlington Convention in deducting special deposits less corresponding liabilities in determining the surplus of surety companies.

In conclusion, I wish to stress the importance of prompt action by the Committee on Assets, or the Special Committee dealing with domestic special deposits, in determining, with certainty, those States and territories of the United States which require casualty and surety companies to make deposits which are held in the nature of special deposits for the benefit of a preferred class of creditors in the event of the insolvency of the companies making the deposits. This action on the part of the Committee on Assets should, in my judgment, extend to include cities and courts, as it is a fact that the city of Philadelphia and several courts of Allegheny County, Pennsylvania, require surety companies to make deposits as a prerequisite to doing business with the city of Philadelphia, or the execution of judicial bonds required by the said courts.

For the information of the Commissioners it may be stated that the deposit required under executive order of the War Department made with the collector of revenues in the Canal Zone, Panama, should be reported as a general deposit, while the deposit required of surety companies doing business in Porto Rico should be reported as a special deposit.

It is the practice of the Treasury Department in determining the surplus of surety companies, quarterly and annually, to deduct all foreign deposits, less corresponding liabilities.

In making the deductions of domestic special deposits, less corresponding liabilities, it is the practice of the Treasury Department to use the market valuations of the securities held on deposit as of the last day of the quarter for the quarters ending March 31, June 30, and September 30, while the valuations fixed by the Committee on Valuation of Securities of the National Convention of Insurance Commissioners at the end of each year are used where available, otherwise the Government ascertains from the best information available the market valuations of the securities.

I wish to assure the Convention that it is the desire of the Government to cooperate with the Insurance Commissioners of the several States in settling the question of what States, territories, cities and courts fall within the special deposit class.

I thank you.

SCHEDULE L.

Ed. 1,000—F. C., Feb. 5-15.

.....Company of.....for the quarter ended....., 191....
DOMESTIC SPECIAL DEPOSITS.

Showing all deposits or investments which are NOT held for the protection and benefit of all the policyholders of the company EVERYWHERE. This schedule should be typewritten, and must include deposits with the States of Alabama, Delaware, Georgia, Idaho, Louisiana, New Mexico, Ohio (prior to April 1, 1902), South Dakota, Tennessee, Virginia, the Canal Zone, cities, and courts within the United States. All information must be given as of the last day of the quarter. Column (6) to be filled out only when market value is in excess of corresponding liabilities. Each deposit to be treated separately when entering differences in column (6).

STATE, MUNICIPAL- ITY, OR COURT WHERE DEPOSITED.	DESCRIPTION OF DEPOSITS					
	(1) Par value	(2) Market value	(3) Legal reserve carried on pre- miums in force	(4) Unpaid losses and all other liabilities	(5) Total liabili- ties, (sum of columns 3 and 4)	(6) Excess (differ- ence when market value exceeds corre- sponding liabili- ties)

FOREIGN DEPOSITS.

Showing all deposits with foreign countries, for the benefit and protection of the policyholders residing therein.

COUNTRY WHERE DEPOSITED	DESCRIPTION OF DEPOSITS	(1)	(2)	(3)	(4)	(5)	(6)
		Par value	Market value	Legal reserve carried on pre- miums in force	Unpaid losses and all other liabilities	Total liabili- ties, (sum of columns 3 and 4)	Excess (differ- ence when market value exceeds corre- sponding liabili- ties)
	Totals.						

GENERAL DEPOSITS.

This list must include all deposits which are made for the benefit and protection of all of the policyholders and general creditors of the company everywhere, with any government, province, State, district, county, municipality, court, corporation, firm, or individual, except the regular deposits in banks and trust companies, subject to check, and those shown under "special deposits" above.

STATE, MUNICIPALITY OR COURT WHERE DEPOSITED	DESCRIPTION OF DEPOSITS.	PAR VALUE
		Dollars

Mr. Shehan, of Maryland: I should like to ask Mr. Jordan whether or not that opinion of the Attorney General has ever been sent to any of the Departments or bonding companies or is it not a matter of fact that it was considered a confidential matter between the Attorney General and the Treasury Department.

Mr. Hardison, of Massachusetts: In view of the importance of this matter I think it ought to go to some committee for consideration and a hearing given before the question is decided.

Mr. Shehan: I would certainly second that motion.

The matter was referred to the Committee on Assets of Insurance Companies.

Mr. Merrill called a meeting of the Committee on Uniform Law for Surety Companies to meet at 2 o'clock.

The President: Are there any communications or reports at this time?

Mr. Hardison, of Massachusetts: I have the report of the Committee on Reserves Other Than Life which I will ask the Secretary to read.

REPORT OF COMMITTEE ON RESERVES OTHER THAN LIFE.

The Committee on Reserves Other Than Life begs leave to report that it has had under consideration a proposed liability and workmen's compensation loss reserve bill. It submits herewith a tentative draft of such a measure for the purpose of giving the matter publicity at this time.

The committee announces that a hearing will take place on Monday, October 23, 1916, at 10 a. m., at the Hotel Astor in New York city, at which time company representatives and others interested will be given an opportunity to express their views on this proposed measure.

It is expected that by this method a bill will be reported in December for the action of the Convention at that time.

Proposed Law for Computing Reserves for Liability and Workmen's Compensation Insurance.

The indebtedness for outstanding losses under insurance against loss or damage from accident to or injuries suffered by an employee or other person and for which the insured is liable, shall be computed, as to unliquidated claims, as follows:

1. For all liability suits being defended under policies written more than

(a) Ten years prior to the date as of which statement is made, one thousand five hundred dollars for each suit.

(b) Five and less than ten years prior to the date as of which statement is made, one thousand dollars for each suit.

(c) Three and less than five years prior to date as of which statement is made, eight hundred and fifty dollars for each suit.

2. For all liability policies written during the three years immediately preceding the date as of which the statement is made, such indebtedness shall be computed at a sum equal to sixty per centum of the earned liability premiums of each of such three years, less all loss and loss expense payments made under liability policies written in the corresponding years, but, in any event, such sum shall, as to the first of such three years, be at least

equal to the product obtained by multiplying seven hundred and fifty dollars by the number of outstanding liability suits on such year's policies.

3. For all compensation claims under policies written more than three years prior to the date as of which the statement is made, the present values of the estimated future payments.

4. For all compensation policies written in the three years immediately preceding the date as of which the statement is made, such indebtedness shall be computed at a sum equal to sixty-five per centum of the earned compensation premiums of each of such three years, less all loss and loss expense payments made under compensation policies written in the corresponding years, but, in any event, in the case of the first year of any such three-year period, such sum shall be at least equal to the present value of estimated unpaid claims on compensation policies written during such year: Provided, however, That in computing the reserve as of statement for December 31, 1917, and December 31, 1918, the ratios sixty per centum and sixty-two and one-half per centum, respectively, shall be used instead of sixty-five per centum, as hereinbefore provided.

The term "earned premiums" as used herein, shall include gross premiums charged on all policies written, including all excess and additional premiums in course of collection, less return premiums, reinsurance premiums and premiums on policies cancelled, and less unearned premiums on policies in force.

The term "compensation," as used in this section, shall relate to all policies issued by virtue of statutes providing compensation to employees, irrespective of fault. The term "liability" shall relate to all policies of insurance against loss or damage from accident to or injuries suffered by an employee or other person and for which the insured is liable, excepting policies issued by virtue of statutes providing compensation to employees, irrespective of fault.

The terms "loss payments" and "loss expense payments," as used herein, shall include all payments of whatsoever nature made by reason or on account of claims covered under the terms of the policy contracts and shall include payments to claimants, payments for medical and surgical attendance, legal expenses, salaries and expenses of investigators, adjusters and field men, rents, stationery, telegraph and telephone charges, postage, salaries and expenses of office employees, home office expenses, and all other payments made on account of such claims, whether such payments shall be allocated to specific claims or unallocated.

All unallocated liability claim payments made in a given calendar year subsequent to the first four years in which a corporation has been issuing liability policies shall be distributed as follows: Thirty-five per centum shall be charged to the policies written in that year, forty per centum to the policies written in the preceding year, ten per centum to the policies written in the second year preceding, ten per centum to the policies written in the third year preceding, and five per centum to the policies written in the fourth year preceding, and such payments made in the first four calendar years in which a corporation has been issuing liability policies shall be distributed as follows: In the first calendar year one hundred per centum shall be charged to the policies written in that year, in the second calendar year fifty per centum shall be charged to the policies written in that year and fifty per centum to the policies written in the preceding year, in the third calendar year forty per centum shall be charged to the policies written in that year, forty per centum to the policies written in the preceding year, and twenty per centum to the policies written in the sec-

ond year preceding, and in the fourth calendar year thirty-five per centum shall be charged to the policies written in that year, forty per centum to the policies written in the preceding year, fifteen per centum to the policies written in the second year preceding, and ten per centum to the policies written in the third year preceding, and a schedule showing such distribution shall be included in the annual statement.

All unallocated compensation claim payments made in a given calendar year subsequent to the first three years in which a corporation has been issuing compensation policies shall be distributed as follows: Forty per centum shall be charged to the policies written in that year, forty-five per centum to the policies written in the preceding year, ten per centum to the policies written in the second year preceding, and five per centum to the policies written in third year preceding, and such payments made in the first three calendar years in which a corporation has been issuing compensation policies shall be distributed as follows: In the first calendar year one hundred per centum shall be charged to the policies written in that year, in the second calendar year fifty per centum shall be charged to the policies written in that year and fifty per centum to the policies written in the preceding year, in the third calendar year forty-five per centum shall be charged to the policies written in that year, forty-five per centum to the policies written in the preceding year and ten per centum to the policies written in the second year preceding, and a schedule showing such distribution shall be included in the annual statement.

Whenever, in the judgment of the Insurance Commissioner, the liability or compensation loss reserves of any insurance corporation, calculated in accordance with the foregoing provisions, are inadequate, he may, in his discretion, require such corporation to maintain reserves based upon individual estimates.

Each corporation which writes liability or compensation policies shall include in the annual statement required by law a schedule of its experience thereunder for the ten years immediately preceding the date of the statement in the United States and foreign countries in the case of corporations organized in the United States, and in the United States only in the case of corporations organized outside the United States, giving each calendar year's experience separately, and crediting or charging each item to the year in which the policy to which it relates was written, in the manner hereinbefore provided.

FRANK H. HARDISON,
JESSE S. PHILLIPS,
S. D. WORK,
M. J. CLEARY,
JOHN T. WINSHIP,
E. R. HARPER,
WALTER F. SCOTT,
WM. MASON SHEHAN.

On motion the Convention took a recess until 8:30 P. M.

EVENING SESSION.

September 28th, 1916.

The Convention was called to order at 9:30 by the President.

The President: Are there any communications and reports to be presented tonight? If not, we will take up the first paper on the program, "*The Value of Schedule Rating in Securing Equitable Fire Insurance Rates*", by Hon. William F. Dunbar, Insurance Commissioner of Tennessee. (Applause.)

Mr. Dunbar: I was in hopes we would be so late getting back the meeting would be called off and I would escape, but I suppose I must do my stunt.

(The full text of Mr. Dunbar's paper will be found in the Appendix.)

The President: The paper is before you for discussion. Any remarks, or any inquiries?

Mr. Young, of North Carolina: I do not desire to discuss the paper, but I feel that I would like to express my judgment that this is a most admirable paper and well worthy of the consideration of the Commissioners.

The President: Are there any questions any one would like to ask Mr. Dunbar? If not, we will proceed to the next item on the program, "*Can Insurance Rates be Properly Made by a Representative Form of Government?*" by Hon. M. J. Cleary, Insurance Commissioner of Wisconsin. (Applause.)

Mr. Cleary: I want to say at the outset that the paper I am about to read will not justify and therefore I apologize for my part in bringing you gentlemen away from the delightful entertainment at the Country Club. Furthermore, I want to say that I want to offer Mr. Dunbar's paper as Exhibit A of my paper in answering the question submitted to me. I think that he has more effectually answered that question than it is possible for me to do.

(The full text of Mr. Cleary's paper will be found in the Appendix.)

The President: Gentlemen, the paper is before you for discussion.

Mr. Taylor, of North Dakota: I was just going to request that 2,000 copies of Mr. Cleary's paper be furnished for free distribution in North Dakota.

Mr. Wilson, of Kansas: I want to thank the Commissioner from Wisconsin for calling us to the Hotel away from the festivities at the Country Club.

The President: This is the second prize you have won tonight.

The President: If there are no further questions or discussion, we will proceed to the next topic, "*Whole Family Insurance by Fraternal*", by Hon. Harvey Wells, Insurance Commissioner of Oregon. (Applause.)

Mr. Button, of Virginia: I had a letter from Mr. Wells in which he said he was too unwell to attend this Convention and sent his paper to be read or printed in the record, and I move that the paper prepared by Mr. Wells be printed in the record.

The President: I was afraid you were going to make that move, but I really hope it will be read.

Mr. Young, of North Carolina: I suggest that the Secretary read the paper. These gentlemen, I know, are anxious to hear it.

The President: The Secretary will read the paper.

(The full text of Mr. Wells' paper will be found in the Appendix.)

The President: The paper is before you. Will it provoke any discussion? This finishes the papers of the evening. You will notice that the next thing on the program is an executive session.

The Secretary: Before we go into Executive Session, I have the report of the Committee on Auditing the Report of the Secretary-Treasurer.

Richmond, Va., September 28, 1916.

To the National Convention of Insurance Commissioners, Richmond, Va.

Your committee to whom was referred the report of F. H. McMaster, Secretary-Treasurer, respectfully report that they have examined the same and find proper vouchers for disbursements as shown in said report amounting to \$1,449.63, and the bank book showing a balance in his hands which is now on deposit amounting to \$1,319.22.

WALTER F. SCOTT,
T. M. HENRY,
J. C. LUNING.

The report was accepted.

Mr. Young, of North Carolina: Since it is late and it will not take up very much time, I move you that the hearing in the matter of the Actuarial Bureau go over until the first thing tomorrow morning, at half-past nine o'clock.

The motion was carried.

Mr. Shehan, of Maryland: Mr. President, I only want to delay this session for a minute. At the conclusion of the morning session, which was considerably prolonged by my instrumentality, there were one or two matters left in an unsatisfactory condition with regard to that which I had to say in my address. My paper has been referred to a committee. I am desirous and I know that the committee is desirous of having everything possible upon this difficult subject. The supervising official of the bonding business in the United States Treasury Department has very kindly come here and offered in rather a forceful way some information and some remarks. I had understood that the opinion given by the Legal Department of the United States to the Treasury Department was confidential, but I now understand from the gentleman that it is not a confidential opinion. In view of the fact that with all of the learning that would be expected to be found in the legal department of the United States

Government, we might expect to have something of a learned exposition with regard to this matter that has been before at least two departments of the United States Government, I would ask that Dr. Jordan furnish the brief submitted, since it is not confidential. I do not know of a single department that has this; I do not know of a single casualty company that has this, and in all propriety I think they are entitled to it. If it is a brief and an elaborate one going into this subject, it would be helpful. If it is merely a letter, it might not be quite so helpful and useful. And I would ask Dr. Jordan if he would not supply this committee with a copy of that brief, if it is not confidential.

Dr. Jordan: I am unable to say what the action of the Secretary of the Treasury will be in regard to this request, but I merely wish to say that I shall use my best endeavor to persuade the Secretary of the Treasury to send it to the proper committee.

Mr. Shehan: I had understood that it was a confidential matter, but my remark that it was confidential was rather objected to. But of course if it is not confidential, we may have it; if it is confidential, of course I do not want to do the ungraceful thing of asking for something out of your department which we may not have. It is true, I understand, that these gentlemen have presented a case before the United States Treasury Department and we want to know whether they won it or lost it and that information was not given. We merely want some light upon this question of special deposits that constantly comes up in our Conventions. I do not know whether Dr. Jordan has ever had occasion to assert the claims of the United States Government as a preferred creditor.

Dr. Jordan: I think not.

Mr. Shehan: Would you do it?

Dr. Jordan: I would.

The President: It seems to me that this matter has been sent to a committee and that the committee should press the invitation.

Mr. Merrill, of New Hampshire: When I heard the Commissioner of Maryland reach in his learned and able address the subject of "special deposits," my heart sank. I had hoped I had heard the last of that troublesome question. I want to call your attention to the situation of the inquiry as to what States requiring deposits are special deposit States, which was referred to the Committee on Assets of Insurance Companies at the Asheville session of this Convention. In April, 1915, the Convention very wisely added to the Committee on Assets of Insurance Companies, considering the importance of this matter, the representatives of the Insurance Departments of Connecticut, New York and Ohio, with the understanding that these Commissioners be appointed a special committee of the Committee on Assets of Insurance Companies to take into consideration this matter. The special committee held several meetings attempting to arrive at the first necessary action—that of making a definition of special deposits. This definition was agreed upon a year

ago at Monterey by the special committee and was recommended to the Convention by the full committee and adopted by it, and the report of the full committee at the Monterey Convention, which was adopted, asked that the matter of applying the definition to the laws of the different States be continued for further action. In the make-up of the committees this year a special committee appeared on the list composed of the Commissioners from Ohio, Massachusetts and New York, and from correspondence and discussions which we have had it seemed to be the understanding of this Convention that this committee has lost its character of being a special committee and has become an independent special committee of this Convention. For that reason I have disclaimed any responsibility for their action since their appointment. The Insurance Department of New Hampshire in the audit of annual statements this year found that no standard of special deposit states had been adopted. It attempted to ascertain from conferences and correspondence with several of the leading Departments as to what were special deposits and it obtained the usual result—got about as many different opinions as there were departments whose opinions were asked. Now, it is important that this matter be settled and that this Convention adopt some rule, whether right or wrong, as to what are special deposit States, and I am going to ask that if this committee, consisting of Ohio, New York and Massachusetts, be a special independent committee of this Convention that it be discharged from consideration of this matter and that it be referred to the Committee on Assets of Insurance Companies, of which these three States are all members.

The President: Gentlemen, you have heard the motion.

Mr. Button, of Virginia: My recollection is that these three Departments were constituted a sub-committee of the Committee on Assets.

Mr. Merrill: The sub-committee was made up of the Commissioners from Connecticut, New York and Ohio. The present committee is made up of Ohio, New York, and Massachusetts. The committee was appointed by the President of the Convention and not by the Chairman of the Committee on Assets.

Mr. Taggart, of Ohio: I have no objection to being relieved from this representation and having Mr. Merrill or some other member assume this responsibility.

Mr. Hardison, of Massachusetts: I repeat the remarks of my friend the Judge. I do not know why my name was ever put on the committee.

Mr. Phillips, of New York: As the other member, I have no objection to being relieved. My only connection with this committee was at the December meeting in New York, of which I have not very many pleasant recollections.

The President: That was construed to be a special committee. It stood out as a sub-committee of the Committee on Assets, but when it came later to be appointed and some of its duties assigned it took

the form of a special committee. Without objecting to anything that has been said or done here, I am responsible for Massachusetts going on because the President of this Convention did not desire as President to be upon any committee which seemed to be within his power to appoint, and therefore he was very careful not to appoint himself on any committee and that is how Mr. Hardison came to be on the committee. If I were a member of that special committee I would prefer to report that the matter seemed to be one for the Committee on Assets and ask to be discharged rather than be discharged by the Convention. I think that would be the better way to raise the question.

Mr. Merrill, of New Hampshire: I do not wish to be misunderstood in this matter. It seems to me that the subject of special deposits taken in consideration with the matter which has been brought up by Mr. Shehan's paper is one which should be taken into consideration by one committee. The three members of this special committee are all members of the Committee on Assets of Insurance Companies and my purpose was that the matter might be consolidated on the record in that one committee. I think the committee is a sub-committee of the Committee on Assets.

The President: Will the gentleman from New Hampshire permit me to change his motion? The special committee reports that it seems that the matter is in the hands of the Committee on Assets and they ask to be discharged from further consideration of the matter.

The special committee was discharged and the whole matter was left in the hands of the Committee on Assets of Insurance Companies.

The Secretary: I move you, sir, that the Secretary be authorized to levy the usual assessment of \$50.00 for the expenses of the Convention for the next year and that he also be authorized to bill the various Departments for such contributions as they can make for the work of the Committee on Valuations.

The motion was adopted.

The President: Any further business?

Mr. Potts, of Illinois: That the question of special deposits may assume some definite form and harmonious action may be had by this committee and the Treasury Department, I suggest that Dr. Jordan be asked by the committee or by this body to present, with the consent of the Secretary of the Treasury, the position of the Treasury Department with such information as may be available, and that the matter be presented in writing.

The President: It seems to me that the committee has that entirely in its hands.

Mr. Button, of Virginia: I have never heard of the Attorney General of the United States giving a secret ruling. That is a most unheard of proposition, and if we cannot get it by appealing to the Attorney General, I for one would introduce a resolution into the United States Senate to get it. As public officials we are entitled

to it. And if it cannot be obtained in one way, it will be obtained in another.

The President: Then I presume the chairman of that committee will exercise his power.

The President: I hope that some of you noticed in that paper of Mr. Wells' that he said of our Secretary, the Commissioner from South Carolina, that he never gives up.

The Convention then took a recess until 9:30 the following morning.

MORNING SESSION.

September 29, 1916.

The President called the Convention to order at 9:30.

The President: Are there any communications or reports?

Mr. Potts, of Illinois: If I am in order, I wish to state that the committee selected to draft resolutions of condolence and sympathy concerning the death of Hon. John S. Patterson are ready to report.

Richmond, Va., September 29, 1916.

To the National Convention of Insurance Commissioners:

Your committee appointed to draft resolutions of condolence and sympathy concerning the death of Hon. John S. Patterson, Commissioner of Insurance and Banking of the State of Texas, reports the following:

Whereas, it has come to our knowledge that death, in its endless struggle for victory over all mankind, has reached this body and called therefrom our honored and beloved member, Hon. John S. Patterson, Commissioner of Insurance and Banking of the State of Texas, and

Whereas, through the death of Commissioner Patterson this body has lost one of its most valuable members and co-workers and that the great and beneficent institution of insurance has lost one of its sincerest advocates and that his companies and associates have lost one of their truest friends, and that the State of Texas has lost one of its most trusted and faithful servants, and that his family has lost an honored and beloved member, and

Whereas, that the wholesome life, honored career and manly acts of Commissioner Patterson may stand as living examples to those of us left behind and that his counsel, which was sought, and his suggestions, which were followed, and his acts, which stood as precedents, may be before us,

We, therefore, ask that this resolution be spread upon the records of this body and that a copy be mailed to his successor, and there spread upon the records of his Department, and that a copy be sent to his family as an expression of sympathy and condolence.

WM. F. DUNBAR,
RUFUS M. POTTS,
WALTER K. CHORN.

The resolutions were adopted by a rising vote.

Mr. Merrill, of New Hampshire: By request of the Legislative Committee of the National Association of Insurance Agents, I desire to place before the Convention the recommendation of that Association that laws be enacted in all States "to limit each licensed fire insurance unit to one agent in a given designated territory", and suggest that it be referred to the Committee on Laws and Legislation for consideration.

The matter was referred to the Committee on Laws and Legislation.

Mr. Hardison, of Massachusetts: As Chairman of the Committee on Workmen's Compensation Insurance I wish to announce that there will be a meeting of this committee in New York on October 24th for the purpose of a hearing. Any and all Departments that have compensation bureaus are invited to come and discuss their views, and the companies are also invited to be present. It is necessary to take the companies into the consideration of this subject and take their advice to some extent and see what can be done in the matter of uniformity. Further notice will be given.

The Committee on Reserves Other Than Life was called to meet in New York on October 23rd, and the Committee on Fidelity and Surety Companies on October 25th.

Mr. Young, of North Carolina: I would like to call the attention of the gentleman from Massachusetts and also the other gentlemen to the fact that they are calling a meeting of committees very soon after this meeting which brings about a complete change of committees and probably these committees may be changed.

The President: The new committees are not then appointed.

The President: Is there any further business at this time? If not, the Convention will take a recess to give the Committee on Actuarial Bureau an opportunity to take up that matter and several gentlemen desire to be heard.

ACTUARIAL BUREAU.

Mr. Young, of North Carolina: The work of the Actuarial Bureau has been brought to the attention of this body repeatedly and the real object of the meeting this morning is to get before the Commissioners as full and complete understanding of the work of this bureau as is possible. Those of us who have looked into the matter are satisfied that it is only necessary for the Commissioners to understand the object of this bureau, the work it is doing and plan to be in thorough accord with it. Of course what is to be accomplished by it is yet a matter to be worked out in the future. I have asked the Chairman of the Committee of this Bureau, Mr. Wyper, to give a statement to this committee this morning. (Applause.)

Mr. Wyper: It is not my purpose to take up any great amount of your time, but as Chairman of the Actuarial Bureau Committee of the National Board of Fire Underwriters I feel it is a privilege to say a few words as to our appreciation of the sympathy and co-opera-

tion we have had from your Actuarial Bureau Committee. The members of that committee spent several days in New York last December and in the course of several days spent a number of hours in the offices of the Actuarial Bureau looking over the work being done and discussing with the managers of the National Board the work that was proposed to be done in continuation of the activities of the Actuarial Bureau. I am quite sure the chairman of the committee and other members realize that the work of this bureau is in a sense evolutionary. The whole scheme beginning with the uniform classification is evolutionary and we all realize that matters of that kind cannot be forced; they must make natural progress. There are many discussions on each of the problems that have to be considered by the Actuarial Bureau Committee and in order to harmonize the views of all these men it is necessary that we take the matters up in great detail. Our committee has spent several long meetings discussing a single problem before we have arrived at a settlement. So I want you gentlemen to feel that we are making progress, but the progress is necessarily more or less slow. I do not wish to magnify the work of the National Board in this respect by dwelling on the difficulties, but they have been many. I am satisfied by what has already been done that the chairman and other members will co-operate with us in working out these problems.

I wish once more to express the thanks of our committee to your Actuarial Bureau Committee for the assistance and encouragement they have so heartily given.

Mr. Young, of North Carolina: I am going to ask Mr. Mallalieu also to make a short statement. If there is any information you want I want you to ask for it.

Mr. Mallalieu, General Manager: I wish to tell you how highly we appreciate the courtesy you have extended to representatives of the National Board to appear before you and comment on the work which the Actuarial Bureau is doing. It has been my privilege to speak to this body many times on this work in which you have all shown interest. I do not feel that any of you realize the stupendous task which has been undertaken by the fire insurance companies, with your co-operation, in taking care of the loss report feature of the Actuarial Bureau work. As an example of that it will be interesting to you to know that in 1915 we received 630,000 loss reports, and for the five months of this year from January 1st to June 1st we have received 450,000, indicating that in 1916 there will be close to 1,000,000 loss reports. That means a vast amount of detail work to be taken care of by the companies reporting the loss to the bureau and also to the bureau. The form in which the losses are reported to the bureau has been changed since a year ago, and today the losses are made out by the adjusters. They use adjusters' loss report blanks which the committee has prepared and adopted by the companies. These reports are made out in duplicate, one copy being retained by the company and the company forwarding the duplicate

to the bureau. These blanks give practically all the information obtainable respecting a fire and also all claims, for we keep a record of all claims, and that is no small work to card that by rotation and by name of the claimant.

The Committee of Fire Marshals visited our Bureau last December and spent two days going into the work quite thoroughly and as a result they adopted resolutions which have been sent to each State Fire Marshal urging the State Fire Marshal in each State to secure an amendment to their law at the next Legislature which will relieve companies from reporting to the State Fire Marshal, because that means duplicate work and accomplishes no valuable results because the bureau furnishes all the information to the fire marshal, especially where the fires are of suspicious origin and where an investigation seems necessary we then telegraph by night letter the information, giving the name of the company and the location of the fire. In that way I think we have been instrumental in helping the fire marshals procure arrests and in a number of cases convictions in a short time after the fire occurred. We get losses paid, in addition to the suspicious fires, and that information, through the use of tabulating machines, is carded and filed away and at the end of the year is classified and the information given to each fire marshal and such Commissioners as care to have it. We attempted to keep a tabulation by cities and towns, but that was an endless task; it would take us a full year to complete the preceding year.

The bureau, I am frank to say, would not be as successful as it has been if it had not been for the splendid co-operation we have received from the chairman of this committee and his assistants, for they have visited with us and corresponded with us, and I feel that the work we have done so far is really of value in determining the amount of losses that have occurred in all the States. Nothing would please us more and nothing encourage us more and nothing would give you a more thorough knowledge of the work than to pay us a visit in New York and go through the bureau and realize what the insurance companies, both stock and mutual, are endeavoring to accomplish. We have today 238 companies reporting to the bureau, and of that number 56 are mutual companies.

Mr. Young: Will you tell the advantage of keeping up with men who have had several fires? There has developed a very remarkable success in getting up with men who have had suspicious fires. In cases where they have a policy with two companies, neither of which knew that the other company had it and both paid the loss. The bureau keeps a tabulation of everything which enables them to get this information.

Mr. Mallanau: We have had several cases of the kind where the assured will take out two policies in two separate companies, say for \$1,000 each, and when the loss occurs the assured signs his statement that only one company is interested and each company has to pay the loss, which is an evident fraud on the part of the assured.

We communicate that to the State Fire Marshal and to the companies interested and have been successful during the year in apprehending some of these men and securing to the companies the refund of the amount paid.

We have also had a number of cases where fires have been reported and on investigation have found that no fire has occurred. That is communicated to the State Fire Marshal and they have brought about the arrest of these persons.

Mr. Henry, of Mississippi: I would like to ask Mr. Mallalieu one or two questions for information. I understand, Mr. Mallalieu, that you report to the Insurance Commissioners of the various States the fires after the same have been settled, and that you promptly report—by wire if deemed necessary—all suspicious or incendiary fires. I would like to ask what per cent. of the total number of fires do you estimate that these two reports cover?

Mr. Mallalieu: I think between the two classes that we are getting today reports of from 90 to 95 per cent. of the total losses that occur in this country.

Mr. Henry: Your bureau, as I understand it, gets its information or report of these fires from the adjusters of the various companies, does it not?

Mr. Mallalieu: The company gets it from the adjuster and we get it from the company.

Mr. Henry: How much additional work or trouble would it be for those adjusters in making their reports to the companies to make an additional report to the various Insurance Departments of such States as require those reports?

Mr. Mallalieu: It would practically duplicate the work. They would have to make two reports. The first report would be an estimate which would be of no value except to state that a fire occurred on a certain day. Then they would have to report to their company when the loss had been adjusted, which would necessitate two reports by the adjuster.

Mr. Henry: That would not duplicate it if the adjuster in making the report to the company were required to make one to the Insurance Department of the State in which the fire occurred.

Mr. Mallalieu: He would have to make two reports. The majority of adjusters do not carry a piece of carbon paper with them. It would practically duplicate the work.

Mr. Henry: You think, then, that your report to the Departments of the fires after the same have been paid and your report of incendiary fires which occur at once cover 90 to 95 per cent. of the losses?

Mr. Mallalieu: May I ask Commissioner Henry a question? Commissioner Henry, of what value would the first report be to you except to tell you that there was a fire in that location?

Mr. Henry: In the majority of cases it would be of little value, but occasionally it might be of some value in giving us an indication that there had been an incendiary fire and enable us to start on an

investigation a little earlier than if we had to wait for the report from your bureau.

Mr. Mallalieu: That is taken care of in States where they have fire marshals.

Mr. Henry: Unfortunately a good many States do not have that.

Mr. Young: In our State every fire in the State is reported. Those in incorporated towns by the clerk and others by the sheriffs.

Mr. Henry: That absolutely covers it.

Mr. Young: Are there any other gentlemen that would desire to make a statement or any Commissioner that desires to ask any questions?

Mr. Wilson, of Kansas: The Kansas people desire to reduce rates rather than eliminate discrimination. I would like to ask Mr. Mallalieu how soon the Actuarial Bureau had in mind the classification of premiums as well as what you are doing now? Is that work to be taken care of in the near future?

Mr. Mallalieu: What we want to determine is the loss cost of each class of business and to do that you don't need the premium. The losses will determine the loss cost.

Mr. Potts, of Illinois: Mr. Chairman, I have argued this question so many times that I do not now feel like warming up for another argument. I am not training for any race, hence I need no "work-outs," but I cannot refrain from calling your attention to a fatal omission in the work of this Actuarial Bureau, which makes the statistics reported by it fundamentally wrong, and until this omission is supplied, its work is absolutely worthless so far as being of any service to either the insurance departments or the insuring public. The question asked by the Commissioner of Kansas is the one that is asked by every man who gives this matter a moment's study. The people of the State of Illinois would no more be satisfied with a report of the work of this Actuarial Bureau, wherein it reports only total writings and fire losses, with the United States as a unit, than they would be if my department, through which I as Insurance Superintendent collect more than \$800,000 a year and pay out about \$115,000, would report only receipts and disbursements, without listing the source of the receipts or itemizing the payments. When this Actuarial Bureau will include premiums, giving the premiums earned upon each classification of the total business written, making the respective States the unit, then its work will be of inestimable value not only to the insurance departments but the insuring public, which pays the premiums. It has been that fundamental error, which makes its statistics unserviceable and worthless, that has prevented me from acquiescing in the work of this bureau. I have corrected that error so far as my State is concerned and will be able to give to the people of Illinois, as soon as the same is completed—which will likewise be serviceable to all of the States in the Union—the most valuable information ever issued upon the question of fire insurance statistics. I am not sure that in every instance these statistics will

sustain my version of this question and I am not sure that they will not do so, but in order to determine the exact facts I have established a classification of all risks and have followed the National Board, in so far as possible, and have required the companies doing business in Illinois to report not only the writings and the losses but the premiums upon each class, making the State a unit. If an insurer can go to the records of my Department and obtain full and complete information, covering the amount of business, the losses and the premiums paid, of the class in which his property is carried, then he will get just what is due him in the way of information, and to require him to accept anything less is a fundamental mistake. I have tried hard to follow these people but they are not right on this question. Early in life, when I first began to teach school, a little incident happened, which I have always remembered, and it has been brought to my mind at various times in my efforts to work with the managers of the Actuarial Bureau. During the first month of my first term of school a problem was attempted by the algebra class and they failed to make the answer agree with that reported in the book. I rushed to the blackboard, with full confidence in my ability to show the class just what I could do with a difficult problem. I worked a little while and then began to perspire, and finally exhausted myself, and with great humiliation announced to the class that I could not work the problem. I then tried and tried again, and finally told the class that I had worked that problem and that the answer in the book is wrong. With slight manipulation of the figures I could have reached the answer named in the book and the class would not have known the difference. Through my defiance of the answer in the book the school directors became somewhat disturbed, and after a conference I told them I would submit the problem to the County Superintendent of Schools, who, upon solving it, announced that the book was wrong and that I was right. I did not then, nor do I now, know how to force a false answer, and for me to join in this report would be the forcing of a false answer.

I have done everything I could to work this statistical problem in accordance with the version of the Actuarial Bureau and have tried to believe that its efforts were made in good faith and that its experience in handling these statistics would justify me in substituting the judgment of this Bureau for mine, but for me to join in this report would be to manipulate the statistics in a way that I know is wrong, and this I cannot do.

When I think of the people of my commonwealth and know what they are entitled to from this Actuarial Bureau, and what is and has been kept from them, whether designedly or not, and then when I think of what statistics should be placed of record in my Department, accessible to the insuring public, which pays the premiums, I am compelled to stand by my solution of this problem and must decide that the work of the Actuarial Bureau is not worthy of endorsement.

I regret that I cannot join with the Actuarial Committee in this report.

Mr. Young: We have had this for the purpose of hearing these gentlemen and the report of the committee will be filed. If there is no objection, the committee will adjourn.

The President: The Convention will come to order. Are there any reports to be made at this time?

Mr. Potts, of Illinois: The Committee on Social Insurance has not held a meeting. It will require a day's work to canvass the report in any reasonable manner. We all love these Virginians too well to take a day off, or get a day to ourselves, in order to go over the report. It seems like every time we turn around, we are re-fed, or taking an automobile ride. However, I would like to have the report acted upon during this meeting, or while East if possible. Commissioner English, I understand, is going to New York, Commissioner Nesbit could no doubt meet with us, either here or in New York, and no doubt we could prevail upon Colonel Young to meet with us, or I am willing, if the other members are ready, to hold the meeting here. What I do desire is that my report be considered, which does not altogether conform to my address, but is a plain, simple statement of all the facts we could obtain from publications in the English language and publications in three other languages. It is not colored in any sense, but, regardless of my statements, in order to be a report of the committee, their consideration should be given to it, and if I could have a meeting of this committee, I would be glad to have it.

Mr. Young, of North Carolina: I know the gentlemen did not mean that it was hard to get me to meet with this committee. I am ready to meet any time.

Mr. Potts: I hope I was not misunderstood. The reason I did not ask for the committee to meet sooner was because I did not do anything with my report until just a day or two before I left home. I then went through it and made some pencil memoranda and left it to be copied, and the report did not reach me until after I had been here several days. I regret the delay.

Mr. Young: I would like to present the report of the Committee on Actuarial Bureau. It is not signed by Judge Potts.

REPORT OF COMMITTEE ON WORK OF THE ACTUARIAL BUREAU TO THE NATIONAL CONVENTION OF INSURANCE COMMISSIONERS.

In the report of this committee, made to the National Convention of Insurance Commissioners for the year 1915, your attention was directed to the work undertaken by the National Board of Fire Underwriters to secure a uniform system of classification for all companies issuing contracts of indemnity against loss by fire and lightning.

This work was inaugurated January 1st, 1915, and at its inception the expense of inaugurating and carrying on same was assumed by the larger stock fire insurance companies members of the National Board. Through the efforts of the Commissioners,

Fire Marshals, and the Actuarial Bureau Committee of the National Board of Fire Underwriters additional companies, both stock and mutual, adopted the plan and classified their business according to the uniform classification of occupancy hazards.

The classification of fire risks has always occupied a prominent place in the business of fire insurance, and there is hardly an insurance company which does not maintain a system of classification more or less elaborate; the use made of this information varies greatly among the individual companies, but is claimed to be used mainly to differentiate between profitable and unprofitable business.

Fire underwriters are at variance in their opinions as to the usefulness of figures obtained in this manner as a basis for rate making, and it is an open question as to how far data thus tabulated can be used in connection with the rating of individual risks. Not only have underwriters discussed the value of classified experience but for many years individual Insurance Commissioners, inspired by the success of life insurance companies in the making and use of mortuary tables, gave more or less thought and attention to the possibility of similar procedure on the part of the fire companies.

The States were adopting classifications and requiring companies to make returns in accordance therewith. These classifications differed in the different States, as were the classifications kept by the different companies. This only added to the trouble and expense without obtaining figures that could be combined so as to give the valuable data desired. The Insurance Commissioners, in considering this matter, after discussion, decided that, "It was properly a matter which should be handled by a committee of the National Convention of Insurance Commissioners in conference with the companies."

The result of the work of this committee, its conferences with the companies, their attitude, the letter of Mr. E. G. Richards to the companies proposing a uniform classification and that the National Board undertake the work, the organization of the bureau and its preliminary work is set out in the proceedings of this convention, and, to a considerable extent, familiar to our members.

The question of making and supervising rates was one that would not "down." The companies in different ways were making the rates and the people were complaining that all they could do was to pay such as were charged. They wished to know that the rates were based upon experience set forth in statistics to show the probable cost of the benefits given. Many of the Insurance Commissioners shared in a desire for proper information along this line and believed that the figures and data desired from an uniform classification of the experience of all companies would be valuable. Of course, it remains to be seen to what extent this will prove true. Certainly it will take considerable time to work out the proper system and methods, and years to develop the experience that will be useful and possibly very valuable.

Your committee would call your special attention to the following information received by it as to the progress of the work of the bureau:

The system of the bureau segregates the business into 434 classes of occupancy, subdivided according to construction and protection, with an added feature of interest in furtherance of protection against fire waste, by the adoption of a classification of causes of fire, subdivided into 27 classes, and which subdivision has the approval of the Fire Marshals' Association of North America.

This work during the year 1915 was necessarily in its nature experimental, and the value of the results obtained was enhanced by securing the adoption of the work by companies writing the greater portion of this class of indemnity, and in overcoming the difficulty as to accumulation of the proper data through frequent revision and reconstruction made necessary by the factors involved to bring about the combined results of all companies so necessary to obtain reliable statistics.

Prior to the inauguration of this work most companies conducted a classification department intended to demonstrate the loss cost of the various classes written. It was not possible, however, to combine the separate records of each company, for there was an absolute lack of uniformity varying from a very few classes by some companies to a hundred or more classes by others, and with subdivisions made in such manner as to render the report of the companies, as a whole, absolutely incompatible and incapable of combination.

During the past calendar year the bureau could not secure a classification of writings, since the adoption of the classification for losses necessitated a great change in the work of all companies, with its attendant increase in expense and confusion. The plan for classifying writings is having the attention of the committee in charge of the bureau and collection of amounts written will be taken up this year, so that the statistics will include both writings and losses, subdivided according to the standard classification.

At the present time the membership of the bureau includes 184 stock and 52 mutual companies, or a total of 236 companies which have adopted and are classifying their business in accordance with the scheme outlined.

The Actuarial Bureau occupies the entire sixth floor of the Bishop Building, at 76 William Street, New York city. Some idea may be gained as to the magnitude of the work by a short resume of the course a loss report takes from the time it is made by the adjuster until it is finally combined at the close of the year in the statistics collated, which is as follows:

Each day in the neighborhood of 4,000 loss report forms are received and reviewed. This does not indicate an equal number of fires, since in many of the losses a number of companies are concurrently interested. Differences of opinion and judgment often lead to the assignment of different class numbers to the same risk and these must of necessity be harmonized before the loss can be tabulated. After a thorough review of the information carried, the correct reports are listed and passed on for final tabulation.

It is estimated that approximately one and one-quarter million cards will be punched for losses paid during the year 1916. The segregation of items is obtained by the use of especially designed machinery, without which the time and expense would be almost prohibitive. A card is punched for each loss reported. This in turn is verified and then filed according to State. At the close of the year the cards from each State are sorted according to construction and protection, cause and occupancy, each card having to go through the sorting machine six times before the arrangement is perfected for tabulating. They are then placed in a tabulating machine which, in effect, is similar to an adding machine with the exception that it handles the several columns simultaneously, and the totals of the various subdivisions of occupancy, etc., are entered on the tabulating sheets by the operators in charge.

Another branch of work has recently been undertaken by the National Board of Fire Underwriters, which promises to be of very essential value to the operations of the Actuarial Bureau.

Based upon the recommendations of the retiring President of the Board, E. G. Richards, in his address at the annual meeting May last, a committee of eleven has been appointed by its Executive Committee to consider the subject of uniform accounting.

Methods of accounting among fire insurance companies are at least diverse, for scarcely two companies now have the same system. The Commissioners long since realized the difficulty and even impossibility of obtaining from those companies detailed reports of income and outgo of a uniform and reliable character, whether for the country or by individual States.

This new committee has already decided that uniform accounting is absolutely necessary if statistical data is to be furnished to the insurance departments and the public in character accurate and in form useful.

The example (with resulting effects) of the adoption of uniformity in accounts by railroad and other public service corporations, has been the spur to officers and Executive Committee of the National Board, which has started this movement. We can see that success in the conclusions of this committee and the adoption by every fire insurance company of such a system of accounting as would then be recommended, must raise the work of the Actuarial Bureau to a high plane of exactness and reliability and thus hasten the day when the fire underwriters, as well as the public official, will have ready at hand scientific facts relating to fires and fire insurance costs, which in themselves will constitute "publicity" of the highest value to the community.

Your committee learns that the Committee on Blanks will keep in close touch with this proposed plan of uniform accounting as it develops.

A visit to the bureau will well repay each Commissioner. It is not only interesting, but instructive, as it clearly demonstrates the immense amount of work required to insure accuracy and obtain the desired results, where so great a volume of figures is involved. The combining and tabulating according to the plan adopted by the National Board and approved by the Commissioners and Fire Marshals is an undertaking of greater size and expense than possibly any of us contemplated. However, the inconvenience to the companies resultant from a radical change in the manner of keeping their classification is to a great extent eliminated; the Actuarial Bureau is well under way and may be said to have passed the experimental stage.

In the recent history of the National Board of Fire Underwriters for fifty years this is said of the Actuarial Bureau:

"Now comes the newest development of National Board activity, its Actuarial Bureau, which might well be termed the bureau of vital statistics of American fire insurance. This is the biggest thing in modern underwriting on its more technical side, and is nothing less than an effort to collect, classify, tabulate, and interpret the entire experience of fire insurance companies upon their American business. That experience consists, primarily, of the insurance, or writings, as represented by the many millions of policies issued each year by the companies belonging to the Bureau, and the losses which these companies sustain under these policies. The purpose is to establish the burning ratio, or fire cost, in every class of property. The magnitude of such a task is

hard to realize. As yet the companies are reporting only their losses to the Bureau (the reporting of writings commencing probably with the coming year), but even at this stage of development the work completely engages the time of about forty employees and the capacity of much labor saving machinery."

After speaking of the work of the Actuarial Bureau in preventing incendiary fires, this is said:

"But even this important service is secondary to the larger task of interpreting insurance experience, through collecting, classifying, and tabulating its statistics. In this way, it is expected that, in time, fairly accurate tables of loss-costs may be obtained upon all classes of risks, and these will be available as a basis for greater accuracy in rating."

The success of the Bureau seems assured if a concerted effort will be made by the Commissioners to have all companies, regardless of class, adopt the uniform standard classification and report their experience to the Actuarial Bureau. Many companies dislike to adopt the new form for the reason that for many years past they have kept their classification data in a manner entirely different and, since an average can have no real value until the data collated covers a period of several years, it is necessary for them to maintain their former classification for the value it possesses in directing the policy of the company in the selection of risks, and, at the same time, maintain the new standard so that after a sufficient period the system formerly in use may be discarded and the standard form relied upon for successful results.

While this unquestionably does result in additional expense and labor, yet we are convinced that the nature of the business demands that all companies maintain their classification records in a uniform manner and necessitates the adoption of a standard at this time. The objections raised now will not in any manner be lessened or overcome by deferring the matter to a future time.

Your committee recommends that the members of this Convention adopt the classification of the Actuarial Bureau as the standard for their respective States without addition or deduction, since any change destroys the uniformity which is essential to the success of the undertaking, and in cases where a different form has heretofore been established, either by legislative enactment or ruling, that they use their influence to substitute the standard form for same.

Respectfully submitted,
JAMES R. YOUNG,
JESSE S. PHILLIPS,
F. H. McMASTER,
J. D. O'NEIL.

The report was adopted.

The President: Are there any other reports ready?

Mr. Phillips, of New York: I have a report of the Committee on Laws and Legislation which I will ask the Secretary to read.

REPORT OF COMMITTEE ON LAWS AND LEGISLATION.

Your Committee on Laws and Legislation begs to report that sub-committees thereof, having under consideration the following subjects, have reported progress to this committee and have asked leave to consider such subjects further, and to report again at a meeting of the committee, to be held at the December, 1916, adjourned meeting. Such subjects are:

Unauthorized Insurance (page 30, December, 1915).

Licensing Adjusters (page 31, December, 1915).

Mercantile Floater Policies (page 31, December, 1915).

Reciprocal Underwriters (page 31, December, 1915).

Furnishing Information to Citizens in Regard to Insurance (page 7, April, 1916).

Policy Forms for Livestock Insurance (page 91, April, 1915).

Mutual Assessment Life Insurance (page 91, April, 1916).

Your committee further reports that it has had under consideration the resolution of Commissioner Cleary of Wisconsin for the investigation of the subject of a Standard Form of Policy, or an Extension of the Standard Provision Law With Reference to Health and Accident Policies (page 86, April, 1916), and that the subject thereof has been referred to a sub-committee consisting of Commissioner Cleary of Wisconsin, Commissioner English of Iowa, and Commissioner Winship of Michigan.

Your committee further reports that it was waited upon by Mr. Sills, representing the National Life Underwriters' Association, who requested consideration of the proposed uniform law concerning life agents' qualifications. The subject of such proposed law was carefully considered and in connection therewith your committee considered the fact that a uniform Agents' Qualification Bill, applicable to all classes of agents, had been adopted by the Convention at the December, 1914, meeting (page 40). Your committee recommends that the attention of those interested in the proposed Life Agents' Qualification Bill is respectfully directed to the uniform bill adopted in December, 1914.

Your committee further reports that it has considered a resolution offered at this meeting by Commissioner English of Iowa in the following language:

"In view of the widely different coverages upon automobiles now permitted fire writing companies under the present statutes of the several States, and this lack of uniformity being an undesirable condition not only from the standpoint of the insured, but the insurer, be it

"Resolved, That this Convention does hereby suggest and recommend legislation in the various States fixing the standard of automobile coverage for fire writing companies to include all hazards except to the person."

Your committee has considered the subject-matter of such resolution and has referred the same to a sub-committee, consisting of Mr. English, Mr. Merrill and Mr. Work, with instructions to report thereon at the December, 1916, adjourned meeting.

All of which is respectfully submitted.

JESSE S. PHILLIPS, Chairman;
JOS. BUTTON,
WM. F. DUNBAR,
JAMES R. SPRING,
FRANK TAGGART,
C. F. NESBIT,
JOHN T. WINSHIP,
W. K. CHORN,
EMORY H. ENGLISH,
M. J. CLEARY,
J. D. O'NEIL,
ROBERT J. MERRILL,
S. D. WORK.

The report was adopted.

Mr. Nesbit, of Washington, D. C., introduced the following resolution:

Resolved, by the National Convention of Insurance Commissioners in its forty-seventh annual Convention assembled, That we desire to express our deep appreciation on behalf of ourselves and our guests of the splendid hospitality and delightful entertainment we have so thoroughly enjoyed in the city of Richmond.

We fully appreciate the time and pains taken by the good people of this city to make our stay here a delight and a refreshment. Our lives are enriched by the experience, and we return to our various homes in every quarter of this great nation with indelible memories of Virginia hospitality.

The kindly attentions we have so generously received bring to our minds the truth that

"Kind hearts are more than coronets

And loving deeds than Norman gold."

Particularly we desire to express our heartiest thanks to that prince of good fellows, Colonel Joseph Button, whose genial courtesy and distinguished ability are universally recognized and appreciated.

The resolution was unanimously adopted by a rising vote.

The President: Are there any other reports, communications or other matters of business? If not, we will proceed with the program. The next matter on the program is entitled, "*Departmental Practices and Rulings.*" Are there any remarks upon this subject? It was for the purpose of an interchange of views by the Commissioners.

Mr. Potts: Do we not have a committee on Codification of Rulings? Might it not be well if that committee would meet and give us their report? We are in need of the rulings of all other Departments and it is of the utmost necessity that rulings harmonize. I suggest that we hear from the chairman of the committee on that subject.

The President: Mr. Welch is chairman, and Mr. Eastham is the ranking member.

Mr. Eastham: Being a new member of this Convention, I am not familiar with it at all. Some one suggested that it was not necessary to have a meeting of this committee. If it is, I will be willing to get the committee together and do what I can.

The President: To illustrate what the committee had in mind. The matter discussed the other day in reference to complaint bureaus and what the departments do in regard to small claims. We had a very interesting discussion and I was surprised to find the unanimity of practice. I was under the impression that more States had power to decide these matters, but it seems we are all in the same boat and we all in a way assume a certain power by mutual consent. There are also matters of rulings that arise for us all.

Mr. Young, of North Carolina: Mr. Ekern, you know, is trying to get organized a bureau by which he will collect the rulings of all the Departments and distribute them not only to the other Departments but to the companies. That would of course tend to get some uniformity of rulings.

Mr. English, of Iowa: I do not find in the records of my Department any rulings from other Departments, and I have had some temerity about sending my rulings to the other Departments. It would be of advantage to me, and I am sure to the other Commissioners, to exchange rulings on any basis that would be practical. I have been sending Mr. Ekern the rulings of my Department. They apply only to the Iowa statute, but as a citation of the Supreme Court decisions I think the rulings of the various Departments on the State law would be valuable to the Commissioners, and so far as I am concerned I would be glad to have the rulings from the other Departments.

Mr. Young: I am sure we would be glad to have these rulings. There is this difficulty: a great many of the rules are made in answer to a letter from a company or an individual case and that becomes a general rule of the Department. A man never knows when one of these rulings is to become of much importance.

Mr. Phillips, of New York: Colonel Young has expressed about the situation that prevails in our Department. A great many of our rulings are contained in letters of inquiry and they finally become a ruling, but it is, of course, difficult to sort out the rulings that might be helpful to the other Departments. We have in the last year tried to compile a digest of the rulings of the Superintendents covering a period of years which will fill a large book. That has its objections because when a new Commissioner comes in and tries to rule otherwise he is confronted with the ruling of another Commissioner. And while it has its value, it also has its disadvantages. We should be glad to send to the other Departments the formal rulings, but it would be difficult to send every ruling made, for perhaps twelve or fifteen are made every day. Some may be important, others may be unimportant.

Mr. Merrill, of New Hampshire: I want to call the attention of the Convention to a conference I have with the Commissioner from Colorado in relation to the inspection of agencies in his State. I think it would be interesting to the Convention if Commissioner Harper would tell us what he has done in regard to the inspection of some of his agencies in Colorado.

Mr. Harper, of Colorado: I suppose what I did has been done by every Commissioner over and over again, but it was only new to me because of my limited experience in office. We have always had the general plan of examining not only companies but general agents, and not having a particle of knowledge about insurance, and not having any concern for my predecessor's rulings, I proceeded to do in the Department what I thought ought to be done along strictly business lines. I found in my short observation and experience, more possibly before I went into the Department, that there is one factor underlying the great business of insurance more to be regretted than any other, and that is the lack of confidence in the business of insurance upon the part of the insuring public, and I came to the conclu-

sion that that lack of confidence was very largely due to the tendency of the Commissioner to continually tell the public of some error going on in that field of work. I am of the opinion that if the same program were carried out regarding banking, that if every time a clerk in a bank made a slip, or every time a bank made an error in its business, if the powers that be governing banking in the State would make public on the first page of the daily papers those facts, in ten years the public would begin to question the security of banking. I believe that sort of thing can gradually undermine any great business. With that honest belief I concluded that the public wanted results rather than publicity, and so began what we believed was a general examination of the whole business of insurance, not so much the companies or the general agents but the little fellow, and whatever has been the experience of the other Commissioners, the result of the work has been astonishing so far. I was somewhat fortunate in having an acceptable man to do the work, and, having a limited field, being able to cover much of the territory, and out of those examinations of the little fellow at the cross-roads where thus far something like 500 have been examined, I question if it is an exaggeration to say that at least a majority were found to be in error and proceeding illegally or carelessly regarding this great work. We went to them with this distinct understanding that we wanted to co-operate with them in assisting to bring back the confidence of the people in this business and better their business. At first some of them would say, "What business is it to you? Who are you? What is the Department?" Then came the co-operation on the part of the examiner and the Department with the individual with the result that we have readjusted quietly the errors. The general agents have reported, whether they are right in their conclusions or not, that the business has improved, not so much in volume, but the systems have been changed, settlements made more promptly, and the sub-agent is beginning to feel that he is in a business recognized by the State and he feels his position more keenly and does the work better.

We have no direct power in our law to take this position, but we assume this power and get away with it. We urge the keeping of accounts and suggest a system and it is surprising what the result is. General agents say that men who failed to settle promptly are keeping these accounts and are now more prompt in their settlements.

Another factor is, we go into a town and the first man we meet says, "Now, I will tell you of a fellow you want to look out for and that is Jones; he is a rebater," and from office to office the same cry goes up. When our examiner gets through with Jones he finds in almost every case that Jones is not a rebater, but is doing an active business, is alive and really worth while as a general agent. Then it is the duty of the examiner to go back to the other agents and establish confidence in what Jones is doing. And so we are trying to readjust the general feeling of efficient and worth while agents on the part of those special agents.

Mr. Wilson, of Kansas: How do you pay the expenses of the examiner?

Mr. Harper: He is a special examiner in the Department and his salary is paid by the State.

Mr. Phillips, of New York: Does the examiner make an investigation of all the agents or just the general agents?

Mr. Harper: All the agents. We have about 2,500.

Mr. Phillips: What is the size of the examining board?

Mr. Harper: Just one man.

Mr. Hardison: I would like to ask Mr. Harper how he ascertains that Jones is not a rebater?

Mr. Harper: Sometimes we are not able to determine that definitely at first but have to wait. Sometimes we determine it from his records and from the fact that we sometimes put some of the insurers under oath and from different lines of effort and different means we come to the conclusion that Jones is not a rebater.

Mr. Hardison: If Jones is a rebater he would never admit it. If he has made a rebate the one to whom he has made it will never admit it.

Mr. Harper: This has developed an interest along that line. We have had several cases wherein just as soon as a community understood that the Department that they had really never heard of before was in their midst to assist in readjusting conditions that might exist, we have had people come to us directly and tell us that they had been favored in that way but they are not being favored now and they give the information because they want to get even.

Mr. Young, of North Carolina: I want to say this: I think that the idea is a splendid one and can be worked out to accomplish great results, but I want to ask the gentleman from Colorado how he manages to find a man who is expert enough in the different classes to make these examinations? I see how a man who understands life insurance could examine life agents, but I take it that there are very few men in my State who would do the general work.

Mr. Harper: I don't want you to think that the work we are doing is so very ambitious. The ability of the examiner is more in accounting; we want to find out what they are writing, what their records show and their general policy.

Mr. Henry, of Mississippi: I understand you have an agency qualification law. How long has it been in operation?

Mr. Harper: About a year and a half.

Mr. Henry: Does it work satisfactorily?

Mr. Harper: It has been very satisfactory and has resulted in weeding out many irresponsible and bad agents.

Mr. Henry: Is it modelled after the standard adopted by this Convention?

Mr. Harper: Yes.

Mr. Henry: Has the operation shown you where it should be amended?

Mr. Harper: In going over the matter in my annual report I can see no suggestion, but I do say if there is any Commissioner that hesitates on that question, he ought to begin to make it a study, because it is one of the most valuable changes our Department has made for a long time. It is a workable, practical law.

Mr. Henry: Did you put that law in operation under a ruling or general statute?

Mr. Harper: A general statute.

Mr. Henry: Do you think it could be put into operation without a general statute?

Mr. Harper: Yes.

Mr. Works, of Minnesota: I crave the pardon of the Convention for bringing up a disagreeable matter. My heart and liver are in perfect working order notwithstanding. One of the most disagreeable matters that come to me is a disposition on the part of the companies to make the Insurance Department of Minnesota a collecting agency. I do not know whether this experience is general or not. It is one that has grown on me because I have taken cognizance of these questions. When an agent is slow in making his returns and owing to the fact that we have an agent's qualification law which makes it easy for us to cancel a license, it is used as a club by the companies to force settlements from their agents. It seems to me that is an unnecessary burden to place upon an insurance department and I have thought of late of sending out circular letters that hereafter, unless it were a very extreme case, I should decline to become the collecting agency for any company doing business.

Mr. Young, of North Carolina: Do you let them make a complaint to you of an agent when they still retain that agent in their service?

Mr. Works: Yes.

Mr. Young: I have adopted a rule that I will not listen to a complaint until the company has cancelled the license. If a company employs an agent and they stop that agency, then you can take the matter up and under my law his license must be cancelled unless he pays that balance.

Mr. English, of Iowa: I have the same trouble. I simply tell the official making the complaint to put it in the form of a judgment and the Department will be in position to say to the agent, "Either pay this judgment or quit the business."

Mr. McMaster, of South Carolina: I was going to say to Mr. Works that that has been a matter that has been annoying to me for several years, in fact since 1910. The course which I pursue is practically to take cognizance of every complaint made of a balance reported due. I simply write to the agent that such and such a company or general agent reports that such and such a balance has not been paid; that the Department is interested in this matter only because of the fact that unless this matter be satisfactorily explained to the Department the Department will have to consider it in connection with the licensing of that agent for any other company, and

that generally brings forth a reply and we get a line on what should be done.

The President: It seems to me that the Commissioners of Departments and perhaps the public are losing sight of the fact that the agents, after all, are representatives of the companies and that the responsibility for those agents rests primarily with the companies and it should be the companies which we are after quite as much as the agents. We are overlooking that largely. The agents themselves are. In that proposed legislation introduced by Mr. Sill it provides that the agents shall be appointed by the Insurance Department with the approval of the company. It seems that we have got the cart before the horse. Here is a piece of legislation proposed to go into every Legislature where the State is given the power to appoint the agents and the company whose agents they are are simply to give their approval. The men are the companies' agents and like the agents in any other business should be held to strict account by the companies themselves. The companies are to lose in the handling of this matter.

Mr. Young, of North Carolina: The best speech of the Convention.

The President: Before we go into executive session it is moved and seconded that we proceed to the election of officers.

ELECTION OF OFFICERS.

The President: The nominations for President are now in order.

Mr. Winship, of Michigan: I desire to place in nomination the name of a man who is eminently fitted to preside over the deliberations of a body of this character, a man of commanding ability in the legal profession who has served his State in the Lower House and served on the Committee on Insurance, a member of the Constitutional Convention of the State and has done more perhaps in the history of this organization towards assisting the smaller Departments through the elaborate nature of his Department by reason of the employment of expert men than other Department in this country; furthermore this State has not had the presidency of this organization in 22 years. Without taking any further time I desire to place in nomination the Hon. Jesse S. Phillips of New York. (Applause.)

Mr. Button: I move that the Secretary be instructed to cast the unanimous vote of this Convention in favor of Mr. Phillips.

The Secretary: As Secretary, I cast the vote of this Convention for the Honorable Jesse S. Phillips as President.

Mr. Chorn: I presume the next nomination will be that of First Vice-President. And if it is in order, Mr. President, I should like to present the name of a gentleman to this Convention. May God forbid that the bitter, blighting day shall ever come in the history of this Convention when intelligence and honest endeavor are not recognized! I therefore wish to present for the consideration of this Convention the name of a man whom we all should have delighted to

have honored further, a man whose smile radiates sunshine and whose soul is the embodiment of all that is good in man. Mr. President, this man has been an inspiration to this Convention since I have been a member of it; he is from the Western part of this country. If our President is from the East, I think it well we should recognize some other section of the country. Although I say he is from the great middle West, I subscribe to the words of that great poet Rudyard Kipling:

"East is East, and West is West, and ne'er the twain shall meet
Till Earth and Sky stand presently at God's great Judgment Seat.
But there is neither East nor West, nor border, nor breed, nor birth
When two strong men stand face to face, though they come from
the ends of the earth."

I wish to place before the Convention the name of our distinguished member who is now First Vice-President and who is prevented from being President by the by-laws of this Convention, and I think the least that this Convention can do is to re-elect him as First Vice-President, the Hon. John T. Winship. (Applause.)

The Secretary was instructed to cast the entire vote of the Convention for Hon. John T. Winship, of Michigan, as First Vice-President.

Mr. Winship: Will you pardon me for one moment for saying that I hardly recognized myself.

The President: If Mr. Phillips will allow me to say so, there is a provision in our Constitution about somebody not being President whose term expires, but there is no law which prevents a man from succeeding himself as First Vice-President and we are very glad that there is not.

Mr. Harper, from Colorado: The task I am about to assume is a very easy one. Without any reflection upon the First Vice-President, my candidate does not need a eulogy from me. I have the honor and great pleasure to present the name of a little farther Western man and one you all know; his value to this organization and each individual member you know as well if not better than I, but you don't know him better than I as one of the best Americans, even though he comes from that far State of Iowa. I now nominate Hon. Emory H. English as Second Vice-President. (Applause.)

The Secretary was instructed to cast the entire vote of the Convention for Hon. Emory H. English as Second Vice-President.

The President: Now we are getting down to serious business. The nominations for Secretary-Treasurer are in order.

Mr. Young, of North Carolina: I desire to nominate a man who needs no eulogy and no recommendation, and I am glad that there is no law against him succeeding himself. It gives me very great pleasure to present for this office the Secretary of this Convention. (Applause.)

Mr. Nesbit: I feel that in a meeting like this co-operative body there should be no iron-bound rules or cast-iron practices. I think

the best man for that place in this whole body should be nominated and I therefore take great pleasure in seconding the nomination made by Colonel Young.

The President: You didn't feel this platform shake.

It was moved and seconded that the Secretary-Treasurer be elected by a rising vote, which motion was unanimously adopted.

Mr. McMaster: I am going to break the procedure by saying that when Mr. Nesbit arose there came to my mind that anecdote which I am sure Mr. Winship and probably all of you have heard. An old negro, after the Republican Convention in Chicago, asked a gentleman, "Who have the Republicans nominated?" and the gentleman said, "Mr. Hughes and Mr. Fairbanks." Then the old negro said, "Well, boss, who do you think the white folks is going to nominate?"

Mr. Hardison: Is there an opportunity now for making a motion?

The President: There is always an opportunity for making a motion.

Mr. Hardison: I noticed in the reading of the expenses a little item of \$200 as the salary of the Secretary of this Convention. Now I don't think there is any need of argument that that \$200 is a mere nothing for the services that Mr. McMaster renders, and I am going to move that the salary be fixed at \$500.

The motion was duly seconded and unanimously adopted.

Mr. McMaster: I am going to make another speech. I want to thank the Convention, and I do sincerely thank the Convention for this added token. Such matters are always well received down in South Carolina, but I must confess that I have felt that the honor was sufficient. It has been of great benefit to me to serve as Secretary of this Convention; it has added very much to my knowledge of the insurance business. I don't know why it is but when Mr. Hardison made the motion another anecdote came into my mind. At the last general election in South Carolina a negro presented himself to vote and in accordance with the law of the State he was given the Constitution to read, which he read very readily, and then he was asked to give the meaning of *habeas corpus*. He hesitated a minute and then a smile broke over his face and he scratched his head and said, "It means this nigger aint gwinter vote." So I somehow felt that maybe this added income meant that I should not have as much honor as was in the office heretofore. Nevertheless I thank you very much.

Executive Committee.

The President: The next thing is the election of the Executive Committee.

Mr. Works: We are told by geographers that at the North Pole there is only one direction and that is South, and I am inclined to believe that the geographers are absolutely right. In accordance with that idea I wish to place a gentleman in nomination for Chairman of the Executive Committee that is remarkably well fitted for that peculiar position. There are many positions that men seem to

be born to fill. This gentleman whom I shall name is one of the most versatile men I have ever known. There is no position in the gift of this Convention or in his commonwealth that he would not honor. I recall very vividly one time when he stood like adamant in behalf of his friends to the extent of holding up a transcontinental train for over an hour, which never can be done again. On occasions he has been an angel of mercy; on other occasions the delightful companion and friend. No belted knight ever looked after the interests of the ladies as this gentleman, and therefore it is with the keenest pleasure that I place in nomination at this time the distinguished, courtly, knightly Colonel Button, of Virginia. (Applause.)

The President: Colonel Button is elected. Do you doubt that vote, gentlemen? Do you want to overrule the Chair? No appeal.

Mr. Button: I am so overwhelmed at the delightful things that have been said that I don't know that I am competent at this stage to carry out my part of the program. I want to say that many years ago we had in Virginia a convention composed of political high-brows and pharisees who thought they were better than other men and they collected themselves to protest against what they termed as machine domination. I recall very vividly a very charming correspondent, Harby L. West, sent from Washington to give an account of this convention. He said that the chairman arose and moved that a committee on credentials, committee on resolutions and various other committees be appointed, the chair to appoint the members of the various committees, and the account went on to say the resolution was immediately adopted, and to show the utter absence of anything that savored of cut-and-dried proceedings, the chairman reached his hands in his pocket and proceeded to announce the names of the committees. The next thing is the election of the members of the Executive Committee, and I have consulted with a good many members of the Convention and in order to have it so arranged that every section of our country should be represented upon this committee, I wish to suggest the names of the members as follows:

Hon. F. H. Hardison, of Massachusetts.

Hon. James R. Young, of North Carolina.

Hon. Robert J. Merrill, of New Hampshire.

Hon. M. J. Cleary, of Wisconsin.

Hon. E. R. Harper, of Colorado.

Hon. R. B. Forsythe, of Wyoming.

The Secretary was instructed to cast the entire vote of the Convention for these gentlemen.

The President: I think that completes the election of officers, and I take it that the next duty before us is the installation of the new President.

Mr. Potts, of Illinois: Will you permit me to return to some business matters before this President leaves the chair?

The President: I do not wish to insist, but I think the gentleman from New York should take the chair.

Mr. Potts: I only want to ask permission to file a minority report of a committee of which I am a member—the Actuarial Bureau Committee—and ask that I be relieved from signing the majority report that has been filed and present a minority report.

The President: The gentleman from Illinois wishes to file a minority report in regard to the report of the Actuarial Bureau instead of signing the report of the committee, and I admire him for acting upon his conviction.

Mr. Young: I see no objection, but it occurs to me that the report ought to be brought up before the Convention.

Mr. Potts: I presume that I should be given the same length of time and opportunity to prepare a minority report that was taken by the author of the majority report, and with this in view, I will say that I will conform to the wishes of this Convention in that respect. I cannot stop to dictate it now.

(Filed later.)

**MINORITY REPORT OF ACTUARIAL COMMITTEE ON WORK
OF THE ACTUARIAL BUREAU (FIRE INSURANCE)
OF THE NATIONAL BOARD OF FIRE
UNDERWRITERS.**

Not being able to concur in the report of the Actuarial Bureau Committee, I feel it my duty to present a minority report, because the questions considered by the Actuarial Committee are of supreme importance in relation to fire insurance rates, practices and business methods, all of which are intimately related to the fundamental problem of the excessive cost and unjust and discriminatory operation of the fire insurance business under existing conditions. These questions are not understood by the insuring public. Their far-reaching importance does not seem to be realized even by the officers of the insurance departments of our 48 States. Consequently, as a member of this committee, I desire to explain the facts fully, so that the people of my State, and the other States as well, may know how and why they are kept in ignorance of the truth concerning fire insurance extortion and discrimination, and so prevented from securing relief from fire insurance oppression.

The National Board of Fire Underwriters originated a half century ago. The Actuarial Bureau of this organization has assumed the function of collecting and supplying statistics, presumably for the benefit of both insurer and insured, but it has either failed to collect statistics from which the justice of insurance rates on different classes of property can be determined, or, if it has such information, is now withholding the same from the insuring public. The National Board's Actuarial Bureau, which has tendered its services to the Insurance Departments of all the States for supplying fire insurance statistics, is only offering to collect statistics considering United States as a unit, and giving the total business written in each class and the total losses in the same, but without any information whatever concerning the amount of premiums charged and collected. Such statistics are absolutely worthless, so far as informing State Insurance Departments and the insuring public whether the premium rates charged are reasonable or excessive. The Insurance Department of each State should have and publish information which would enable any property owner to ascertain the loss ratio on the class of property he owns, which can only be done when the total premiums

received in that State upon that class, together with the total amount of losses paid on the same, is accurately reported. Any system of accumulating information that does not give these facts is fundamentally defective. It amounts to fraud and is deceptive by offering something valueless, instead of the complete information necessary.

In the final paragraph of the majority report appears the following:

"Your committee recommends that the members of this Convention adopt the classification of the Actuarial Bureau as a standard for their respective States without addition or deduction."

This recommendation, that the National Board of Fire Underwriters' classification be adopted without addition or deduction, goes to the root of the whole matter. This clause was doubtless placed in the committee's report because it embodies what is urgently solicited in this respect by the National Board of Fire Underwriters. The officials of said organization refused to furnish the Illinois Department complete statistics, and urged me to accept statistics collected on their worthless and deceptive plan without addition or deduction, for the annual classification report of their Illinois experience required by law in my State from all the insurance companies doing business therein. To understand the importance of this request of the National Board requires a consideration of the plan adopted by them in collecting and compiling their statistics.

The only justification, for the work and expense of gathering and arranging fire insurance statistics, either by the companies for their own use, or requiring them to furnish them to the Insurance Department of the various States, is that thereby it may be ascertained if the premium rates charged by the companies on each of the different classes of fire risks are fair and equitable. Most of the companies have voluntarily incurred the expense of compiling such statistics of their business for many years, for the purpose of determining whether or not the premium rates they charged on different classes of property were profitable.

In the very beginning of the fire insurance business it was perceived that it was not just to charge the same premium rates for fire insurance on different kinds of property, because some kinds of property were much more subject to destruction by fire than others; wooden buildings being more hazardous than brick; shingle roofs more dangerous than slate, metal or other non-combustible roofs; wood-working establishments much more liable to fire than marble works, and so on throughout all of the several hundred classes in which modern buildings and property can be classified.

At first the difference in rates was entirely arbitrary—simply a guess by the manager of the company at a premium he believed would be profitable. It was, however, later realized that the only scientific and just way of fixing the premium rates for various kinds of property was by compilation of the fire losses occurring on the different classes of risks and continuing this until it was found out what proportion, approximately, of each class of risks were annually destroyed by fire. When this proportion or burning ratio is obtained, it is an easy matter to fix an approximately just and equitable rate for each class of property, by adding to the amount required to pay the annual fire loss whatever was reasonably necessary for expense and profit. Fire insurance companies should be allowed to charge rates sufficient to pay the average losses on each class of property they insure, and also for reasonable expense and profit. The latter items are included when losses are hereafter mentioned unless otherwise stated.

As a matter of fact, it has been by some such plan as this that all of the successful fire insurance companies individually fixed their rates until the time came when these were fixed by a combine or combines, through open agreements, or secret ones when necessary to evade the laws of the respective States. But even after the rates were fixed by agreement (which always has been and is now essentially monopolistic and illegal), the collection of fire loss statistics was kept up by the separate companies for the purpose of ascertaining the results of their business, and, particularly, for the purpose of finding out the classes which were most profitable. This business they made a special effort to obtain, and likewise avoided classes which their statistics showed were unprofitable.

This brings me to the consideration of the crux of the whole situation. The absolutely essential feature for determining the justice of rates is a comparison of the amount received by the companies in premiums with the amount paid out by them for losses in each class. This was the information furnished the companies by their individual compilations of results of their businesses. Unless the statistics furnish the means of making this comparison on each class with each State as a unit, there would be no more justification for collecting them than recording the race, color or previous condition of servitude of all fire insurance policyholders. When the National Board adopted a system for the very commendable purpose, as was claimed, of combining the experience of all of the companies, good faith demanded that such plan should make possible the comparison of the amount of annual premiums collected on each class of property with the annual losses paid on such class as had been done by the separate companies with their individual compilations.

The significant fact that the National Board plan does not include the collection of the amounts of the premiums on each class, renders impossible any other inference than that the insurance interests wish to prevent the public from knowing what the relation is between the premiums collected on the different classes of risks, and the losses paid on the same. The only reason for this is an entirely selfish, unfair, and unjust desire to conceal the facts from the premium payers. This is the tactics of every monopoly, but it is absolutely contrary to public policy and opposed to the best interest of the people. If rates are just and equitable in relation to each class of property, there is no reason why the amounts of premiums charged by insurance companies on each class of property, in each State, should not be made known, so that the premium payers, as well as companies, may know what the facts are.

My conclusion as to the motive of the refusal of the National Board to furnish the amount of premiums as well as losses is, however, not based on inference alone. The chairman of its Actuarial Committee, in the course of a discussion on this subject with my assistant in charge of fire insurance matters, when asked the direct question why they did not want to furnish the amount of premiums on the different classes as well as the losses, reluctantly admitted that it was because this would disclose the classes on which they were making large profits, and they would be liable to be compelled to reduce their rates on such classes. This admission, as well as the irresistible logic of the facts, clearly shows the cause of the indefensible position taken by the National Board in regard to furnishing the amounts of the premiums on all the classes of risks.

It is wrong for premium rates to be either too high or too low. In the first place, it is inequitable and intolerable to charge a class

of property which suffers little or no destruction from fire a rate that exceeds what is necessary to pay the losses in such a class. My recent investigation of the fire business in Illinois shows that this condition exists at the present time with regard to many kinds of property. For instance, the class affected by such injustice more than any other is the one containing the greatest number of risks of all—dwelling houses. In the city of Chicago, the sworn statements of the companies in their 1915 classification reports required by my department, show that less than 30 per cent. of the premiums collected from policyholders on dwellings is returned to them in payment of losses. To charge such extortionate premiums, that the companies pay less than one dollar for losses out of every three collected by them as premiums, is such an injustice that it is little better than open plundering.

On the other hand, the fixing of a rate on any class of property which is not sufficient to pay its fire losses, is unjust and contrary to public policy. Such discrimination and favoritism is frequently accorded to big interests having large lines of insurance. Whether granted through favoritism or not, it amounts to collecting from owners of non-hazardous property to pay losses on hazardous property, which is unfair. But, still worse, it allows and encourages the owners of dangerous property to continue in their evil ways. It is well known among every one who is familiar with the subject, that in certain classes of risks, the larger part of the losses are criminal in their origin, the fires occurring for profit of the owner. This is not only one of the most heinous of crimes, but endangers adjacent property and causes frequent loss of life.

In certain other classes of risks where the losses exceed the premiums collected by the companies, the large fire losses are not due to incendiarianism by owners, but is chargeable to the criminal carelessness of owners and their refusal to install automatic sprinklers and other modern methods of fire prevention. Nine fires out of ten which occur in mercantile and manufacturing establishments are preventable by readily available methods. In establishments which are properly equipped with automatic sprinklers, wired glass windows, etc., the fire loss is less than one-tenth of that of those not so equipped. Negligent or obstinate owners cannot be excused on the ground that the expense of installing automatic sprinklers is excessive, because the reduction in insurance rates which can be obtained by the installation of effective automatic sprinklers will pay for the installation of such a system in from three to five years.

If the information collected concerning fire insurance is complete, and includes the amount of premiums collected as well as the losses paid on each class of property, and the rates are thereupon adjusted accordingly, then the owners of extra hazardous property will be subject to a continuous and powerful pressure to adopt readily available modern methods of fire protection, which will render his property much less liable to fire.

It is a discreditable but undeniable fact, however, that such a reduction of fire loss is the very thing which the insurance companies do not desire to see happen. If all mercantile and manufacturing properties were sprinklered, the total amount of premiums from them would be reduced to less than one-tenth, which would mean a corresponding shrinkage of the insurance business, and a proportionate reduction of amounts of commission and profits from its banking departments, etc.

These are the real reasons which have led and still lead the National Board to refuse to furnish the complete results of their business, including the amount of premiums paid on each class.

These reasons are absolutely contrary to the interests of the people. Therefore, I cannot concur in the report of the committee, which endorses the National Board proposition. I do not believe that the members of the committee who have signed the majority report realize the full import of their action in approving and recommending the acceptance by all of the States of the plan proposed by the National Board of Fire Underwriters without addition or deduction.

The National Board's incomplete plan of collecting fire insurance statistics was not willingly adopted, or in good faith, but was proposed only after they were convinced by the passage of laws in some States requiring the reporting of complete statistics to their insurance departments, that the insuring public would obtain damaging information, and they hoped that by inaugurating their deceptive plan, they would be able to prevent the passage of more laws of that kind by promising to furnish insurance departments statistics, which, although superficially plausible and interesting, are, in reality, incomplete, deceptive and worthless because they do not furnish the information absolutely necessary to determine the equity of fire insurance rates.

I have met with as much resistance in Illinois as the companies dared offer to the collection of complete and useful information. Every kind of an excuse was urged to get me to drop, or at least delay the collection of such statistics. As a last resort, some managers said that it was physically impossible to furnish the information. However, when it came to the point of choosing between furnishing complete statistics or discontinuing their insurance business in the rich fields of Illinois, these companies furnished the complete statistics, which shows that it was not physically or otherwise impossible to do so, but only that they wished to prevent the information from becoming public.

Without implying in any manner personal criticisms of the members of the committee who signed the majority report, I am obliged to say that it amounts to an excuse for and endorsement of the deceptive and incomplete statistical plan adopted by the National Board, and will mean additional delay in securing reform of the wrongs and injustices now prevalent in the fire insurance business throughout the United States. Consequently, I must respectfully, but earnestly dissent from the recommendations of the majority of the committee that the plan of the National Board be adopted without addition or deduction, although I would further say that I believe that the classification adopted by the National Board, which is mentioned in the majority report, is as good as any which has yet been proposed, and that if statistics based on this were complete and included the premiums paid on each class, as well as the writings and the losses, and were segregated according to States, that it would be very useful. I have adopted this classification of risks in the annual reports of their Illinois business, required from all companies doing business in the State, but demand that they furnish the amount of premiums on each class as well as the losses paid thereon.

The reports for the 1915 Illinois business was the first complete report on this plan. The compilation of these reports will be published in a short time, and will disclose that the insurance rates in Illinois are exceedingly inequitable, being too high in some classes, and too low in others, and will show strikingly the necessity for reform in my State. Similar complete information would show similar conditions in other States. If all of the States would collect complete classified statistics, fire insurance reform would be soon accomplished throughout the United States, and thereby relief

afforded to all the people from the extortions and injustices practiced upon them by the fire insurance combines.

The majority report tends to hinder and delay this long deferred, much needed relief of the people of my State, as well as of all the United States, consequently I have stated my reasons for dissenting therefrom at some length with "malice toward none and charity for all," in the hope that this statement may do something toward counteracting the mischievous effect of the majority report of the Actuarial Committee.

Respectfully submitted,
RUFUS M. POTTS,
Insurance Superintendent, State of Illinois.

The President: We have already accepted and adopted the majority report so that the minority report will not be adopted but simply filed.

The President: Is there any other business? Then, gentlemen, before calling your new President to the chair I wish to say a word myself—I have not said anything during this Convention so I claim that privilege.

I have been president of other national bodies and chairman of other national committees in one way and another, but I never felt the gratification which I felt a year ago when you elected me President of the National Convention of Insurance Commissioners, a gratification which has remained with me throughout the year and still remains, and I appreciated your kindness and courtesy at that time and the kindness and courtesy accorded me since, particularly in the meetings of the Convention. My much better half thinks that sometimes I like to take the reins in my own hands. I do not know but that I am inclined to do so, but I hope I have not driven over you. Certainly I have not done so intentionally.

I want to express also my appreciation at the character of the papers presented at this meeting. I think they have been excellent and all of us are under a deep sense of gratitude to the gentlemen who have prepared them.

When the gentleman from Michigan told me he was not going to be United States Senator I had never suspected for a moment but that he would be President of this Convention, and while I do not think there would be any doubt in the minds of the Michigan people he seemed to have some doubt, but I had fully expected that he would be my successor. I am glad to see that you have still provided to that end.

In the meantime it is my great pleasure and my privilege to extend to Mr. Phillips, the Superintendent of Insurance of the State of New York, my right-hand neighbor, my hearty congratulations and my best wishes during the coming year. You have honored yourselves in electing Mr. Phillips, and he no doubt will tell you that he feels honored in turn.

I am going to appoint a committee to escort Mr. Phillips to the

Chair. In doing so I desire to name Mr. Button and Mr. English. The King is dead; long live the King! (Applause.)

Mr. Phillips, the President Elect: Gentlemen of the Convention, it is rather difficult for me at this time to fittingly express the gratification which I feel over the result of your unanimous action in selecting me as your presiding officer for the ensuing year. I want to state to you, however, that personally I would have been more gratified if your by-laws and the provisions of the constitution had not prevented the election of my friend, the distinguished First Vice-President of this Convention. I don't want to talk politics, but I know a little something about the politics of Michigan, and I also know a little something about the people of Michigan, of their intelligence and good judgment, and I just have sort of a feeling and notion that regardless of what the political result may be during the coming year that they are going to have the good judgment to retain in the office of Insurance Commissioner the present incumbent. When Brother Winship was presenting my name I blushed for what he said and I felt about the same as a friend of mine who once was a candidate for a congressional nomination in the good old convention days. He was a candidate, Mr. Secretary, of the Democratic Party and in a Democratic Convention. He had selected some man to make the nomination speech. But the convention dragged along with the preliminaries of organization and our candidate became very nervous for fear he might not receive the nomination, and as the convention progressed and the organization was perfected he occasionally slipped out of the convention hall for the purpose of satisfying his thirst. This was repeated many times, and in the meantime his friends who were interested in his nomination had selected some other man who could make a more forceful speech in presenting his name. The last time our candidate slipped out to quench his thirst when he returned the new man was on his feet presenting the name of the candidate, and as he dwelled on the virtues of his candidate in glowing terms he grew very eloquent and told what a wonderful man he was, a man of the people, our friend sat there listening to this speech, supposing, of course, that the speaker was nominating another man. He finally spied the man he had selected to nominate him and he went over to him and pulled his coat tail and said, "When your turn comes, don't present my name. If there is damn cuss in this convention that can meet the qualifications named by the last speaker, I want him to be nominated."

My friends, I simply want to say to you that I sincerely thank you for this honor. I feel that it is an honor I do not merit. The short period of my supervising experience and the short time that I have been connected with this body gives me no claim, I realize, to this preferment, and I know that while it is in a measure a personal tribute I also feel that it is a recognition of the great Insurance Department of which I have the honor for a short time to be the official head, and while I deeply appreciate the personal honor which

you have thus bestowed upon me, I greatly appreciate the honor which you have done the Insurance Department of the State of New York.

I have the highest regard and respect for this Convention of Insurance Commissioners. As you know, I came into the office last year a green-horn having very little experience. I did not know of the existence even of this National Organization of Insurance Commissioners, so I feel that I attended the first convention last fall as a disinterested spectator, and the one thing that impressed me in that convention was the high class of character of the men which constituted its membership, and I can see that the National Convention of Insurance Commissioners is a force in this country which will be helpful to the great insurance interests of this country and also to the insuring public. The men that constitute the membership are men who have had years of experience and the thing that impressed me was that every man in that convention without a single exception was conscientiously and honestly striving to do that which he believed to be his duty and which he believed to be for the interests which he represented. And it shall be my aim, with your help and co-operation, to maintain the dignity and integrity of this institution.

I want to also express to the members of this Convention my appreciation of the courtesies which they have extended to me ever since I became a member of this body. And I am sure that I voice at this time the sentiment of this Convention and the members here present when I say that we greatly appreciate the work of our retiring President (applause), a man of character and ability, with a broad insurance experience. It has been a credit to this Convention to have at its head a man of his attainments, and I feel that he has fixed a standard which will be difficult for his successors to attain.

Gentlemen, again I thank you, and I pledge you my best efforts to co-operate with you in bringing about the results which you desire to accomplish. (Applause.)

Mr. Chorn: I move you, sir, that this Convention extend to our genial, hardworking, retiring President a vote of thanks for the manifestly fair and impartial way in which he has handled the business of the Convention and that this motion be adopted by a rising vote.

The motion was unanimously adopted by a rising vote.

Mr. Mansfield: I thank you very much. I appreciate this highly.

The President: What is your further pleasure? Is there any other business?

Mr. Young: I move that the Convention go into executive session. I take the liberty of saying here that I trust no member of the Convention will go out, as this is an important part of the work.

The motion was adopted and the Convention went into executive session.

CONVENTION RECORD.

The following is a Record of Officers and List of Places at which the National Convention of Insurance Commissioners has been held since its organization.

Session.	Place of Meeting.	President.	Vice-President.	Secretary.
1, 1871	New York, N. Y.	Geo. W. Miller, N. Y.	L. Breeze, Wis.	H. S. Olcott, N. Y.
2, 1871	New York, N. Y.	Geo. W. Miller, N. Y.	L. Breeze, Wis.	H. S. Olcott, N. Y.
3, 1872	New York, N. Y.	Geo. W. Miller, N. Y.	L. Breeze, Wis.	H. S. Olcott, N. Y.
4, 1873	Boston, Mass.	L. Breeze, Wis.	I. W. Foad, Cal.	O. Pillsbury, N. H.
5, 1874	Detroit, Mich.	O. W. Chapman, N. Y.	S. H. Rowe, Mich.	O. Pillsbury, N. H.
6, 1875	New York, N. Y.	O. W. Chapman, N. Y.	S. H. Rowe, Mich.	O. Pillsbury, N. H.
7, 1876	Harrisburg, Penn.	S. H. Rowe, Mich.	O. Pillsbury, N. H.	S. H. Rhodes, Mass.
8, 1877	St. Paul, Minn.	S. H. Rowe, Mich.	O. Pillsbury, N. H.	S. H. Rhodes, Mass.
9, 1878	Providence, R. I.	O. Pillsbury, N. H.	A. R. McGill, Minn.	O. T. Welch, Kan.
10, 1879	St. Louis, Mo.	O. Pillsbury, N. H.	A. R. McGill, Minn.	O. T. Welch, Kan.
11, 1880	Chicago, Ill.	A. R. McGill, Minn.	P. L. Clarke, Mass.	O. T. Welch, Kan.
12, 1881	Detroit, Mich.	J. L. Clarke, Mass.	P. L. Spooner, Wis.	O. T. Welch, Kan.
13, 1882	Niagara Falls, N. Y.	J. L. Clarke, Mass.	J. A. McCall, Jr., N. Y.	J. W. Brooks, Conn.
14, 1883	Chumbus, Ill.	O. Pillsbury, N. H.	C. H. Moore, Ohio.	C. P. Swigert, Ill.
15, 1884	Chicago, Ill.	T. A. McCall, Jr., N. Y.	E. H. Fringie, Mich.	C. P. Swigert, Ill.
16, 1885	Chicago, Ill.	J. A. McCall, Jr., N. Y.	H. J. Reinmund, Ohio.	C. Shandrew, Minn.
17, 1886	St. Paul, Minn.	C. P. Swigert, Ill.	S. R. Cross, R. I.	R. B. Brinkerhoff, Ohio.
18, 1887	Niagara Falls, N. Y.	J. K. Tarbox, Mass.	S. R. Fyler, Conn.	J. A. McFwen, Ohio.
19, 1888	Madison, Wis.	P. Cheek, Jr., Wis.	S. E. Kemp, Ohio.	Geo. B. Luper, Pa.
20, 1889	Denver, Colo.	O. R. S. Merrill, Mass.	Geo. B. Luper, Pa.	Geo. B. Luper, Pa.
21, 1890	Cleveland, Ohio.	Chas. P. Ellerbe, Mo.	Wm. H. Kinder, Pa.	Chas. B. Allen, Neb.
22, 1891	St. Louis, Mo.	Geo. S. Merrill, Mass.	C. N. Smith, Minn.	J. J. Brinkerhoff, Ill.
23, 1892	St. Paul, Minn.	John C. Pierce, N. Y.	B. K. Durfee, Ill.	J. J. Brinkerhoff, Ill.
24, 1893	Chicago, Ill.	John C. Pierce, N. Y.	W. M. Hahn, Ohio.	Fred L. Cutting, Mass.
25, 1894	Alexandria Bay, N. Y.	B. K. Durfee, Ill.	Jas. R. Waddill, Mo.	Fred L. Cutting, Mass.
26, 1895	MacKinnon Isl., Mich.	W. M. Hahn, Ohio.	Stephen W. Carr, Maine.	Fred L. Cutting, Mass.
27, 1896	Philadelphia, Pa.	Jas. R. Waddill, Mo.	W. A. Fricke, Wis.	Fred L. Cutting, Mass.
28, 1897	Old Pt. Comfort, Va.	Stephen W. Carr, Maine.	Milo D. Campbell, Mich.	J. J. Brinkerhoff, Ill.
29, 1898	Milwaukee, Wis.	Edmer H. Dearth, Minn.	W. S. Matthews, Ohio.	J. J. Brinkerhoff, Ill.
30, 1899	Detroit, Mich.	Ed. T. Orear, Mo.	E. L. Scofield, Conn.	J. J. Brinkerhoff, Ill.
31, 1900	Hartford, Conn.	J. A. O. Shaughnessy, Minn.		J. J. Brinkerhoff, Ill.
32, 1901	Buffalo, N. Y.			

CONVENTION RECORD.—Continued.

Session.	Place of Meeting.	President.	Vice-President.	Secretary.
33, 1902	Columbus, Ohio.....	W. H. Hart, Ind.....	F. A. Howland, Vt.....	J. J. Brinkerhoff, Ill.
34, 1903	Baltimore, Md.....	A. I. Vorys, Ohio.....	John L. Bacon, Vt.....	J. J. Brinkerhoff, Ill.
35, 1904	Indianapolis, Ind.....	John L. Bacon, Vt.....	James V. Barry, Mich.....	J. J. Brinkerhoff, Ill.
36, 1905	Bretton Woods, N. H.....	Frederick L. Cutting, Mass.....	James V. Barry, Mich.....	J. J. Brinkerhoff, Ill.
37, 1906	Washington, D. C.....	James V. Barry, Mich.....	Theron Upson, Conn.....	J. J. Brinkerhoff, Ill.
38, 1907	Richmond, Va.....	Geo. H. Adams, N. H.....	Rean E. Folk, Tenn.....	J. J. Brinkerhoff, Ill.
39, 1908	Detroit, Mich.....	Rean E. Folk, Md.....	B. F. Carroll, Iowa.....	J. J. Brinkerhoff, Ill.
40, 1909	Colorado Springs, Col.....	B. F. Crouse, Md.....	F. W. Potter, Ill.....	J. A. Hartigan, Minn.
41, 1910	Mobile, Ala.....	John A. Hartigan, Minn.....	Eugene J. McGivney, La.....	H. R. Cunningham, Mont.
42, 1911	Milwaukee, Wis.....	Joseph Button, Va.....	T. H. Macdonald, Conn., 9.....	H. R. Cunningham, Mont.
43, 1912	Spokane, Wash.....	F. W. Potter, Ill.....	Frank H. Hardison, Mass.....	F. H. McMaster, S. C., 10.
44, 1913	Burlington, Vt.....	Frank H. Hardison, Mass.....	1st. James R. Young, N. C.....	F. H. McMaster, S. C.
45, 1914	Asheville, N. C.....	James R. Young, N. C.....	2d. Willard Done, Utah, 11.....	F. H. McMaster, S. C.
46, 1915	Del Monte, Cal.....	John S. Darst, W. Va.....	2d. J. S. Darst, W. Va.....	F. H. McMaster, S. C.
47, 1916	Richmond, Va.....	Burton Mansfield, Conn.....	1st. Burton Mansfield, Conn.....	F. H. McMaster, S. C.
			2d. John T. Winship, Mich.....	
			1st. John T. Winship, Mich.....	
			2d. W. C. Taylor, N. Dak.....	

1. Mr. Tarbox died before the Convention assembled. The Hon. Oliver Pillsbury, of New Hampshire, was chosen to preside over the Convention.

2. Elected, but resigned before acting in Convention of 1891, and J. J. Brinkerhoff, of Illinois, was chosen in his stead.

3. Out of office at date of Convention, Jas. R. Waddill, of Missouri, elected to preside.

4. Out of office at date of Convention, Stephen W. Carr, of Maine, elected to preside.

5. Not in attendance, J. J. Brinkerhoff chosen as Secretary *pro tem*.

6. Elected, but declined, J. J. Brinkerhoff chosen in his stead.

7. Out of office at date of Convention, Ed. T. Orear, of Missouri, elected to preside.

8. Out of office at date of Convention, W. H. Hart, of Indiana, elected to preside.

9. Elected at Mobile, but out of office at date of Milwaukee Convention.

10. Elected in March, 1912, to succeed Mr. Cunningham, who had resigned.

11. Elected, but resigned before acting in Convention.

The Several States Were Represented at the Conventions Held in the Years Following Their Names.

- Alabama.—October 1871, 1898, 99, 1901, 2, 3, 4, 8, 9, 10, 11, 12, 13, 14—total, 14.
- Arizona.—1913, 15—total, 2.
- Arkansas.—October 1871, 73, 74, 1896, 1902, 3, 9, 11—total, 8.
- California.—October 1871, 72, 1905, 9, 10, 12, 14, 15—total, 8.
- Colorado.—1883, 5, 6, 7, 8, 9, 1890, 1, 2, 5, 6, 7, 1903, 4, 5, 6, 7, 8, 9, 12, 14, 15, 16—total, 23.
- Connecticut.—May 1871, 4, 6, 7, 8, 1880, 1, 2, 4, 5, 6, 7, 8, 9, 1890, 2, 3, 4, 5, 6, 7, 8, 9, 1900, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16—total, 39.
- Dakota.—1889.
- Delaware.—1889, 1901, 2, 3, 5, 6, 7, 15—total, 8.
- District of Columbia.—October 1871, 1889, 1902, 3, 4, 5, 6, 7, 8, 9, 11, 14, 16—total, 13.
- Florida.—1909, 10, 14, 16—total, 4.
- Georgia.—1891, 7, 1906—total, 3.
- Hawaii.—1915—total, 1.
- Idaho.—1909, 12, 13, 15—total, 4.
- Illinois.—May and October 1871, 7, 1880, 1, 2, 4, 5, 6, 7, 8, 9, 1891, 2, 3, 4, 5, 6, 7, 8, 9, 1900, 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 14, 15, 16—total, 37.
- Indiana.—May and October 1871, 2, 9, 1880, 1893, 6, 7, 8, 9, 1900, 1, 2, 3, 4, 7, 8, 13—total, 18.
- Iowa.—October 1871, 1881, 3, 8, 1891, 2, 9, 1904, 5, 6, 7, 9, 10, 11, 12, 14, 15, 16—total, 18.
- Kansas.—October 1871, 4, 5, 6, 7, 8, 9, 1880, 1, 2, 3, 4, 5, 9, 1890, 1, 2, 3, 4, 5, 1905, 6, 11, 12, 13, 14, 15, 16—total, 28.
- Kentucky.—May and October 1871, 2, 3, 4, 5, 7, 1881, 1890, 4, 5, 6, 7, 8, 9, 1900, 2, 3, 4, 5, 6, 7, 8, 9, 11, 12, 14, 16—total, 28.
- Louisiana.—October 1871, 1891, 1903, 5, 8, 9, 10, 12, 13, 14—total, 10.
- Maine.—May and October 1871, 2, 3, 4, 1881, 2, 3, 4, 7, 8, 9, 1891, 2, 3, 4, 5, 6, 7, 8, 9, 1900, 1, 2, 3, 5, 6, 8, 9, 10, 11, 13, 14—total, 33.
- Maryland.—May 1871, 1881, 7, 1891, 2, 3, 6, 7, 8, 9, 1900, 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 16—total, 25.
- Massachusetts.—October 1871, 2, 3, 4, 5, 6, 7, 8, 9, 1880, 1, 2, 3, 4, 5, 6, 7, 8, 9, 1890, 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 16—total, 43.
- Michigan.—May and October 1871, 3, 4, 5, 6, 7, 1880, 1, 2, 3, 4, 1893, 4, 5, 6, 7, 8, 9, 1900, 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16—total, 36.
- Minnesota.—May and October 1871, 1877, 8, 9, 1880, 2, 3, 4, 5, 6, 7, 8, 9, 1891, 2, 3, 7, 8, 9, 1900, 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16—total, 37.
- Mississippi.—October 1871, 1904, 5, 6, 7, 9, 10, 11, 13, 14, 15, 16—total, 12.
- Missouri.—May and October 1871, 1877, 8, 1881, 3, 5, 6, 7, 8, 9, 1890, 1, 2, 3, 4, 5, 6, 7, 8, 9, 1900, 1, 2, 3, 5, 8, 9, 10, 12, 13, 15, 16—total, 33.
- Montana.—1892, 3, 8, 1903, 5, 6, 9, 10, 11, 12, 13, 14, 15—total, 13.
- Nebraska.—May and October 1871, 1888, 1890, 1, 2, 3, 1904, 5, 6, 7, 9, 11, 12, 13, 14, 16—total, 17.
- Nevada.—October 1871, 1903—total, 2.
- New Hampshire.—May and October 1871, 2, 3, 4, 5, 6, 7, 8,

1880, 1, 2, 3, 4, 6, 7, 1891, 2, 3, 4, 5, 6, 1900, 1, 2, 3, 4, 5, 6, 7, 10, 13, 14, 15, 16—total, 35.

New Jersey.—May and October 1871, 1881, 2, 3, 4, 1892, 4, 5, 6, 7, 8, 9, 1900, 1, 3, 6, 7, 8, 14, 16—total, 21.

New Mexico.—1888, 1909, 10, 11—total, 4.

New York.—May and October 1871, 2, 3, 4, 5, 7, 8, 9, 1881, 2, 3, 4, 5, 7, 9, 1891, 2, 3, 4, 5, 6, 7, 8, 9, 1900, 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16—total, 42.

North Carolina.—October 1871, 2, 1903, 4, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16—total, 14.

North Dakota.—1891, 1905, 11, 13, 14, 15, 16—total, 7.

Ohio.—October 1871, 1879, 1880, 1882, 3, 4, 5, 6, 7, 8, 9, 1890, 1, 2, 3, 4, 5, 6, 7, 8, 9, 1900, 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16—total, 38.

Oklahoma.—1901, 8, 9, 10, 11, 12—total, 6.

Oregon.—1909, 11, 12, 15—total, 4.

Pennsylvania.—May and October 1871, 2, 3, 5, 6, 1880, 7, 8, 9, 1890, 1, 2, 3, 4, 5, 6, 7, 8, 9, 1900, 1, 2, 3, 4, 5, 6, 7, 9, 10, 11, 12, 13, 14, 15, 16—total, 36.

Rhode Island.—May and October 1871, 3, 8, 1882, 6, 7, 9, 1890, 1, 3, 5, 6, 7, 8, 9, 1900, 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 13, 14, 16—total, 31.

South Carolina.—1872, 1908, 10, 11, 12, 13, 14, 15, 16—total, 9.

South Dakota.—1893, 6, 1901, 7, 8, 9, 10, 11, 13, 14, 15, 16—total, 12.

Tennessee.—May and October 1871, 1894, 5, 6, 7, 9, 1901, 2, 3, 4, 5, 6, 7, 8, 9, 10, 13, 14, 15, 16—total, 21.

Texas.—1879, 1891, 4, 1903, 5, 6, 8, 9, 10, 11, 12, 13, 15, 16—total, 14.

Utah.—1909, 11, 12, 13, 14, 15, 16—total, 7.

Vermont.—1894, 5, 6, 7, 9, 1900, 1, 2, 3, 5, 11, 12, 13, 14, 16—total, 15.

Virginia.—October 1871, 1906, 7, 8, 9, 10, 11, 13, 14, 15, 16—total, 11.

Washington.—1899, 1900, 3, 5, 10, 11, 12, 15—total, 8.

West Virginia.—1891, 1903, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16—total, 14.

Wisconsin.—May and October 1871, 3, 4, 6, 7, 1880, 7, 8, 9, 1890, 1, 2, 3, 5, 6, 7, 8, 1900, 1, 2, 3, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16—total, 34.

Wyoming.—1901, 5, 9, 11, 13, 15, 16—total, 7.

APPENDIX.

RESERVES OF FIRE INSURANCE COMPANIES.

By C. F. Nesbit, Superintendent of Insurance, District of Columbia.

From the minutes of the adjourned meeting of the National Convention of Insurance Commissioners, held in Hotel Astor, New York City, December 7, 1915, page 7, I read the following:

"Commissioner Nesbit: 'I desire to offer the following resolution: Be it resolved, that the Committee on Reserves Other Than Life be instructed to investigate the matter of fire insurance reserves, especially with respect to a change of basis from a percentage of the premium collected to a percentage of the risk assumed and also with regard to a conflagration reserve requirement.'"

"The above resolution was duly seconded and adopted."

In closing his statement of the principles of the Kingdom of Heaven, known as the Sermon on the Mount, Jesus gave the parable of foundations. The two builders of houses. One builded on the sand, and when the floods came and the wind blew his house fell. Complete was its wreck, for it was built on the sand. But the other builded on a rock and this house withstood the descending rains, the wind and the floods, because it was built upon a rock.

Every institution is either built on true principles or upon untrue. The foundation rock of truth is the only one prudent men will build upon, for no matter how magnificent or extensive the superstructure, if built upon the shifting sands of expediency or the quicksands of falsity, the hour of trial is going to see it fall in ruins.

In referring this resolution introduced by me at the December meeting in New York, 1915, to the Committee on Reserves Other Than Life, you virtually requested this Committee to examine as to the foundations of the fire insurance business in the United States.

The resolution was the cause of considerable comment when introduced. The most of it amounting to mild ridicule that any one could look at the extensive and splendid system of fire insurance and not feel certain that all was well. The more serious comments were to the effect that already the fire companies were suffering chiefly from, regulatory laws, from requirements and restrictions, from burdens and taxation, and they deplored this apparent attempt to still further increase the burdens and annoyances which are accepted as the inevitable accompaniment of State Supervision.

No one will be more pleased than the supervising officials to be reassured if in reality all is well, and, speaking for myself, I am sure my work will be much simplified if an examination by those more expert than I am of the foundation of fire insurance discloses that it is solid rock all the way through.

The essential thing making for security in insurance, and, in fact, the very cornerstone of its foundation is the reserve system, and I shall ask your examination of some thoughts on that subject.

I believe a change should now be made in the legal reserves so that the reserve should be hereafter calculated on the risk assumed

—being a percentage of the risk—and cease to be simply a fixed fraction of the premium received.

That the present inadequate, unscientific and faulty reserve system is the underlying cause of most of our present fire insurance problems I shall attempt to show.

In discussing this problem we should always bear in mind that any insurance problem is a social and economic problem.

Criticism of the companies by the public and of the legislators by the companies, of company officials, by State officials, and of the State Departments and Laws by the companies, all tend simply to confuse the issue and raise the most insuperable barriers to the just solution of any problem, viz.: prejudice and passion. The future welfare of this great democracy rests on the ability of our people to discuss social, economic and governmental problems impersonally and with the public welfare more in view than private interests.

Insurance presents a progressive attack on uncertainty in human affairs. In various ways men have co-operated at first, blindly, and later, understandingly, to enable individuals to provide against losses of uncertain incidence. Unquestionably the most successful of these efforts has been in the direction of provision against death. Life insurance, judged by the amount of premiums collected annually, or any other criterion, is today the most important form of insurance, and it is certainly conducted, from the standpoint of the supervising departments, most satisfactorily. The historical explanation of this is undoubtedly to be found in its early alliance with the scientific calculation of its risks. The Breslau and Northampton Mortality Tables, which were used by the earliest eighteen century life insurance companies, offered a scientific and careful analysis of experience as the basis for the calculation of life risks. This early alliance has been continued and developed. It gave a foundation for the work of Elizur Wright in Massachusetts, which was later extended to other States, and has formed one of the principal bases for the extraordinary success of life insurance in this country. Since his time every legal reserve life insurance contract has been backed up by a reserve calculated on the basis of the risk assumed. Life insurance has been eminently successful in doing what it is intended to do, and this reserve system is one of the principal reasons for its success.

Next in importance, measured by annual premiums collected, as well as by its general social and economic functions, is the fire insurance business. The fire insurance business is not doing its work so satisfactorily, and it today presents one of the principal larger problems in the insurance field. One student of the situation says:

"For some two hundred years fire insurance has been a laggard in its development. I think I am justified in saying that no business of such great proportions and such universal benefit and of such general necessity has progressed to system and perfection more slowly. It is almost incredible that business of such immense proportions and importance, engaged in by many of the ablest, most earnest and energetic men of this country and Europe, remains so long a game of guess and chance."

In State after State conflicts and difficulties have arisen, which in several instances have resulted in the withdrawal, or the threatened withdrawal, of the large majority of the stock fire companies from the State. Fire rates have, in almost every instance, been the cause of the agitation and the source of the difficulty. This agitation and dissatisfaction indicates a deep underlying evil.

The evidence of this unsatisfactory situation, from the standpoint of the companies, and from the standpoint of the public, are many. The most striking is the number of fire insurance companies that have failed in this country since 1880. A list prepared by me from State reports and other authentic sources show that since 1880 no less than 1,703 stock and mutual fire insurance companies have failed, liquidated or reinsured. A table of the companies in New York State from January 1, 1871, to January 1, 1912, shows that there were engaged in business January 1, 1871, in New York, 105 stock insurance companies organized in that State. That between January 1, 1871, and January 1, 1912, there were organized 81 additional companies. Of the 105 in business in 1871, only 20 survived on January 1, 1912, and of the 81 companies organized after January 1, 1871, only 24 were still in business at the beginning of 1912. Out of a total of 186 stock fire companies in New York January 1, 1871, and organized since, only 44 were surviving and doing business January 1, 1912. That the companies of one single State should show such a mortality, 142 companies with over \$30,000,000 of capital, is surprising to the average person. Our volumes of impressive statistics and figures running up into the tens of hundreds of millions deal only with surviving companies. But let us leave New York and go to Massachusetts. Mr. A. W. Damon, president of the Springfield Fire and Marine, made the following statement in Boston early in this month:

"In 1862 there were thirty-six Massachusetts stock fire and fire and marine insurance companies. During the next thirty years, twenty-eight more were incorporated. Of these fifty-eight companies, there are only two survivors, the Springfield and the Boston, and the latter was organized the year after the Boston conflagration of 1872, its corporate name being the Boston Marine Insurance Company, and its business confined to marine insurance for nearly twenty years. The Springfield was saved by the courage of its stockholders, for the Chicago conflagration of 1871 impaired its capital and necessitated an assessment on its \$500,000.00 capital of 65 per cent. Thirteen months later came a demand for 30 per cent. assessment, caused by the Boston fire. These assessments aggregating 95 per cent. were made without a single dissenting vote. I mention these facts to remind you of the mortality record of fire insurance companies which is not exceptional to Massachusetts."

Mr. R. M. Bissell, President of the Hartford Fire Ins. Co., has made a study of 165 of the larger fire insurance companies organized between 1885 and 1909. One hundred and sixty-five companies, with a total original capitalization of \$32,931,760.00. They were distributed as follows:

New York, 40; Illinois, 15; Iowa, 13; Pennsylvania, 11; Texas, 8; Minnesota, 7; Maryland, 5; Colorado, 4; Missouri, North Carolina, Ohio, Washington and Wisconsin, 4 each; Indiana, Massachusetts, North Dakota, Nebraska, New Jersey, Virginia, 3 each; District of Columbia, Kansas, Kentucky, New Hampshire and South Dakota, 2 each, and Alabama, Arkansas, California, Connecticut, Delaware, Florida, Georgia, Louisiana, Michigan, Oklahoma, Rhode Island, South Carolina, Tennessee and West Virginia, 1 each.

Of these 165 companies, 83 reinsured and retired, 6 retired without reinsurance, 19 failed, 18 were absorbed or merged. This accounts for 126, leaving only 39 of the original 165 in existence. Of the companies which died, 8 had one year of life, 16 two years of life, 14 had three years of life, 15 had four years of life, 9 had

five years of life, 17 had six years of life, 13 had seven years of life. Of the 39 survivors above mentioned, however, 4 were reorganizations of older companies, 6 were subsidiaries or allies of older companies, 6 are now transacting purely a local business, 2 engage now in only particular classes of business (one insures only breweries). There is something fundamentally wrong with a business which shows such a high mortality. To have the mechanism of providing against uncertainties itself subject to the greatest uncertainty is, to say the least, far from satisfactory.

Further evidence of the present situation lies in the numerous State investigations into all aspects of the business which have been undertaken during the last ten years, and which resulted from widespread public dissatisfaction.

Among these may be mentioned the Illinois Fire Insurance Commission, created in 1909; the Joint Committee of the Senate and Assembly of New York State, known as the Merritt Legislative Investigating Committee, created in 1910; the Wisconsin Legislative Fire Insurance Investigating Committee, created in 1911; the Missouri Commission, appointed in 1913; the Ohio Commission and the New Jersey Commission, appointed the same year; North Carolina Fire Insurance Investigating Committee, the Joint Legislative Commission of Pennsylvania, and last year the Kentucky Commission.

In the very interesting epitome made of the reports of these State Investigating Commissions by the Honorable Emory H. English, he says:

"A man eminent in fire insurance circles in the United States recently observed, 'The fire insurance business is being made over, partly by us, partly for us.' The accuracy of his statement must be recognized; likewise the frank acknowledgment that an influence outside the business itself is potential in shaping its future.

"In considering the report of the various legislative commissions which conducted these separate investigations in the various States, together with the report of the committee from this convention (The National Convention of Insurance Commissioners), a marked unanimity in the conclusions reached respecting the value and utility of rate-making bureaus must be recognized. It has been said that schedule rating owes its birth to the endeavor to arrive at the first rate in some way that can be explained and the attempt to establish a standard measure of fire hazard which can be seen, handled, discussed and understood."

Concerted efforts by the fire insurance companies, the National Board of Fire Underwriters, the various State Departments and special commissions are rapidly remedying this fundamental defect, but in my opinion this absence of scientific risk estimation in the past has led to a most serious and fundamental defect in the fire insurance business, the responsibility of which, for the existing situation, has not been generally enough recognized.

This defect is the reserve system of the fire insurance companies. The connection between a lack of scientific estimation of risks and the existing faulty reserve system is easily understood. It is quite evident that if a company does not know exactly what its risks are it cannot base its reserve on them, and its premium charges are guess work. The result is that it has to base its reserves on something else, and this had led to the development of the unearned premium reserve system, which today forms the basis of the reserve financing of the fire insurance companies of the United States, and which, I believe to be the principal cause of the present unsatisfactory situation in this field. The history of this unearned premium

reserve system is interesting and demonstrates very clearly its haphazard character and also that its existence is due simply and solely to the lack of any adequate calculation of fire risks.

The great fire of 1835 in New York City marked the end of one period and the beginning of another in American Insurance History. That fire was the first serious American conflagration. It wiped out 23 companies in New York City, and a number of others throughout the country, and it created a violent and widespread demand on the part of the public for some means of rendering the fire insurance business more sound. Previous to 1835 American fire companies had been almost entirely local. Their object had been to provide against losses due to single fires and their rates were based entirely on guess work. The fire of 1835 made it evident that some principle of reservation must be adopted; that it was not fair to the public to allow the companies to rely solely on their annual income to meet their annual losses.

The fire business possessed no reliable estimates for the risks they assumed, and so the most natural course, that of basing reserves on risks, could not be followed. The only other expedient open, that of basing reserves on premiums, was the one adopted. The first step toward this was taken by the State of Massachusetts in 1837, but the unearned premium reserve, as it now exists, was not put into operation until 1852. According to a law adopted by the State Legislature of New York in that year, all fire insurance companies were required to set aside a part of their premiums, which was judged to be sufficient to reinsure the unexpired risks carried by the company in case it should decide to retire from business. This is the system which is in force today, and is familiar to all students of fire insurance finance.

What, then, are the principal objections to this reserve system? In the first place, the reserves do not constitute an adequate provision against the risks assumed. As the history of the reserve system shows its principal object is to protect the insured. This can only be done when the reserve set aside is that percentage of the risk assumed which scientific calculation indicates as the percentage likely to be lost. This is the only true and proper reserve. Today we set aside a portion of the premium, ignoring entirely the risk assumed. If one company writes for one year a policy for \$10,000.00 on a dwelling at a premium of \$25.00, the reserve required is \$12.50, if another company writes it for \$10.00, the reserve required is \$5.00, yet the risk is the same. The present method simply results in allowing inadequate reserves whenever any company charges inadequate rates. The more inadequate the premium fixed by the company the more inadequate the reserve sanctioned by the law.

When the reserve is determined by the premium charge and not by the risk assumed, the reserve may utterly fail to give security. The premium should be made up of the pure premium which should equal the reserve to be set aside for the risk assumed, plus the loading for expenses, less the interest earnings of the reserve. Let us take some concrete examples of our present method: The annual rate on brick dwellings in New York City is 12 1-2 cents per hundred, Philadelphia, 10 cents; Baltimore, 25 cents; Washington, 15 cents; Richmond, 20 cents. The legal reserves, then, for each hundred dollars of risk on brick dwelling houses, 6 1-2 cents in New York, 5 cents in Philadelphia. 12 1-2 cents in Baltimore, 7 1-2 in Washington, 10 in Richmond. If adequate in Philadelphia they are unnecessarily high in Baltimore. If only adequate in Richmond, they are inadequate in New York. Within the past five years in Washington similar dwelling house risks have been written, some at 25 cents, some at 20, some at 15, at 10, at 7 1-2, at 5 cents annual

rate, so that our present reserve system has caused to be set aside as a reserve all the way from 12 1-2 cents to 2 1-2 cents per hundred dollars of risk.

Under the present system the reserve varies with the premium, being sometimes too great and sometimes too small in relation to the risk assumed. We set aside as a reserve that portion of the premium which is assumed to be unearned, this is quite independent of the amount at risk which the reserve should provide for. Today the reserve is a fluctuating amount determined, not by the probable loss to be met on any given risk, but by the premium any company decides for any reason to accept. The principal objection then to basing reserves on premiums is that the reserves is not necessarily an adequate provision for the risk.

In the second place, this reserve system encourages cut-throat competition. Where there is no legal requirement to set up a reserve on the basis of the risk assumed, and where the premium, and so the reserve, is practically determined at the pleasure of the company, a powerful weapon is put in the hands of large companies with which to crush out the competition of newer and weaker companies.

The third objection is that this system unnecessarily increases the difficulties of newly organized companies.

I shall not take time in this paper to enlarge on the ways in which this faulty reserve leads to the excessive number of failures among new companies. The principal ones readily suggest themselves to those familiar with the business.

A fourth objection is that making premiums the basis of reserves on the theory that it is the unearned portion of the premium, leads to ignoring the interest earned on the reserve fund in fire underwriting. Calling this reserve an unearned premium reserve and making its object the reinsurance of unexpired risks in case the company retires from business, has encouraged the belief that it is simply an element in the financial operations of the company and not a part of its underwriting business. Were the companies required by law to set up a reserve the explicit object of which should be to provide against the risks assumed, it would become clear that this reserve is really the property of the policyholders and held in their interest by the company. The interest on reserves is an essential part of the underwriting business.

Fifth. The lack of a sound reserve system has prevented the mutual and co-operative ideal from entering into the fire business to any such extent as it has entered the life business. The mutualization of the Metropolitan Life Insurance Company of New York, and the Prudential Insurance Company of New Jersey, last year, and the Home Life Insurance Company of New York, this year, illustrates the rapidly growing sentiment of mutualization in life business. Even those companies which have a capital stock lay emphasis on their mutual plan of operation. The capital stock is, as a rule, small in amount and limited as to dividends. Mutualization substitutes the idea of service for the idea of profit, and allows competition to work in the interest of the insured by greater benefits and lower costs. The reason for this is the proven soundness of the reserve system in life insurance. The reserves being adequate capital stock is unnecessary. On the contrary, in fire insurance the idea of profit still prevails. There have been, and are many successful mutual fire companies, but they are almost always local, they do a small part of the business and are very restricted in the character of the risks assumed. The absence of a sound reserve system is, in my opinion, the chief reason for this. A large capital stock and a

large surplus are the most practical and certain guarantees today recognized by prudent insurers against fire. These afford a margin of safety over and beyond the reserves required by law. That New York companies alone, with over thirty millions of capital, ceased business between 1871 and 1912—three-quarters of a million dollars annually—shows how necessary capital is under the inadequate reserve system prevailing in the fire insurance business. Mutual and co-operative insurance is the ideal, but only solvent and permanent concerns should be allowed to do business at all. Insecure insurance is not worthy of the name.

An adequate reserve for fire risks would encourage mutualization in the fire business. It should not be more difficult to calculate the probable percentage of annual loss on a given number of brick dwelling houses than it is to calculate the probable number of deaths annually on a given number of individuals. While security is the first and greatest need in insurance, the lowest possible cost is only second in importance.

The profit idea in insurance is a two-edged sword. The fact that companies want a profit from the insured leads to the idea of the insured realizing a profit from insurance. There is certainly no place for profit in indemnity. Just compensation for loss excludes any idea of profit and no charge involving more than the cost of paying losses and the just and legitimate expense of conducting the business should enter into the calculation of premiums.

If the fire insurance business is to be put on a sound basis what then are the principles upon which this revised reserve system should rest?

These principles in the main are two:

First. Reserves should be fixed independently of premiums.

Second. Reserves should be calculated on the basis of the risk assumed.

A fire insurance company is an organization for collecting contributions to a fund out of which the losses to the contributors to that fund shall be paid. The amount that it collects should be determined as nearly as may be in relation to the losses which will probably occur to the contributors. The major part, then, of the premium charge consists of this contribution, the rest of the premium charge is for the purpose of meeting general expenses. If the company is to properly fulfill its economic function, **that part of the premium which is designed to pay losses must be fixed first and it must be fixed on a scientific estimation of the risk and quite independently of the business operations of the company.**

The advantage of fixing the charge to reserve in this way are two: In the first place every risk assumed by the company would be adequately protected by the reserve on the basis of a careful and scientific analysis of experience. In the second place, the difference in premium rates offered by the various companies would then express differences in economy of management and nothing else.

That the reserve should be based on the risk assumed is so self-evident a proposition that it requires little elaboration. We have only to ask, "What is the object of insurance reserves?" to see that this is the only possible basis for computing it. The object of the reserves is to guarantee the payment of losses. It can only achieve this object when it is based on a scientific estimation of what these losses will amount to, in other words, when it is based on the risk assumed. The present system is wrong in principle and disastrous in practice, and it should be replaced by a system of reserves based on the principles which I have outlined.

As was conclusively shown by the Honorable Emory H. English at the last annual meeting of this Convention, public ratemaking has replaced or is replacing private ratemaking. Scientific estimation of rates is taking the place of guesswork. This transition will be abortive unless now the foundation principle of basing the reserve on the risk assumed becomes the practice recognized in law instead of following the old method of setting aside as a reserve an arbitrary portion of the premium whatever it may be.

This reserve must have two elements, for there are two distinctly separate risks assumed in a large proportion of all risks written. These are: first, the usual, or, if we might use the word, normal annual fire loss. Second, the conflagration hazard or loss.

Every few years varying in period of three, five or ten years, we find conflagrations occurring in different parts of the country. Some of these have modified or changed the entire system of fire insurance. From the list I may mention:

The New York fire of 1835, 674 houses and warehouses burned, loss \$17,000,000.00.

The Portland, Maine, fire, 1866, caused by Fourth-of-July fire cracker, loss \$10,000,000.00.

The Chicago fire of 1871, over 17,000 buildings burned, loss \$200,000,000.00.

The Boston fire of 1872, many of the largest business blocks in the city burned, loss \$75,000,000.00.

The Jacksonville, Florida, fire of 1901, loss \$10,000,000.00.

The Baltimore fire of 1904, destroyed 70 blocks, loss \$50,000,000.00.

The San Francisco fire of 1906, loss \$350,000,000.00.

The Salem, Massachusetts, fire 1914, loss \$10,000,000.00.

The annual or ordinary reserve should be supplemented in a proper reserve system by a conflagration reserve which, when depleted, or exhausted, the company could replace, at the rate of, say 20 per cent. annually. The present faulty reserve system is unsafe from the standpoint of the insured, and also from the standpoint of the company. It is inflexible and many companies are unnecessarily forced to reinsure or liquidate when some heavy loss from a conflagration has demanded unusual payment. According to the inflexible departmental rules, these companies are declared impaired. In point of fact, most of them are perfectly solvent and would be able to restore their reserves in a few years. They are now forced to sell additional stock or contributions from their stockholders if they are to escape liquidation.

The tremendous mortality of fire companies is evidence of the failure of our present reserve system.

Such, in brief, is the present situation. Historical considerations and present developments in the fire insurance field indicate that the time has arrived to make a change. It has already been pointed out that the underlying reason for the present faulty reserve system is the fact that when public demand for some system of reserves led to legislation there was no adequate information available in regard to the risks assumed by the fire companies. This fundamental lack, the absence of a scientific estimation of risks is today rapidly being remedied. The agencies in this work are providing for the first time in the history of the business the basis for an adequate estimation of risks assumed.

It was the absence of this information in the past which led to the unearned premium reserve system. The numerous State investigations which have already been mentioned indicate that the pub-

lic is ready for a change, that it is demanding a change. In brief, this is a period of transition in the fire insurance business, and it is important to recognize that if these changes are to result in a really satisfactory reorganization, that along with a revision of rates there must go a revision of the reserve system.

STANDARDIZATION OF INTER-INSURANCE ACCOUNTING.

By Carey J. Wilson, Superintendent of Insurance of Kansas.

The Kansas Legislature of 1913 passed with very little change the Inter-Insurance Bill recommended by the Adjourned Session of the National Convention of Insurance Commissioners meeting in New York, December, 1912. Several of the better class of exchanges had operated in the State for a number of years prior to that date and had given satisfactory service to their members. With the development of the idea of providing indemnity against loss through the exchange of reciprocal contracts, it seemed advisable to adopt regulatory measures and inquire into the methods and practices of the exchanges and their systems of accounting. The bookkeeping systems used by the well established exchanges seem adapted to their purposes but there was a lack of uniformity in the matter of keeping accounts. This paper is prepared largely from the point of view of attempting to outline a workable standard accounting system rather than following the subject assigned by your committee.

In attempting to standardize the accounting methods of inter-insurance concerns, we are confronted with the same difficulty that is met with in nearly every such attempt—that is, a lack of uniform methods of operation. In inter-insurance, of course, the general plan is the same in all of the exchanges, but there are many variations as to detail, each variation requiring its own peculiar method of accounting. Notwithstanding these variations in method, there is great opportunity and need for improvement in the way of uniformity, particularly so since so many of the Departments have adopted the uniform Annual Statement blank recommended by the Committee on Blanks of the National Convention of Insurance Commissioners. This blank was used in Kansas in 1915, and there was great improvement in the statements received over those of former years when stock company forms were used by inter-insurance exchanges, and had to be changed to meet conditions.

As this blank furnishes an excellent basis for a uniform system, it is used as such in the scheme of accounts proposed at this time. It is not claimed for this scheme that it can be adopted as a complete accounting system by any exchange, but only that it provides a simple system of accounts adapted to meet the minimum requirements of the committee blank.

The accounts will be discussed, as nearly as possible, in the order in which the various items appear in the Annual Statement and are as follows:

Premium Deposits. This account is credited, each month, with the total gross premium deposits on the business written or renewed during the month. Gross return premium deposits are charged to this account.

Interest. All interest received is credited to this account indicating the source from which received in order to facilitate analysis in making up the Annual Statement.

Initial (or Reserve) Deposit. This account is necessary only in those cases where deposits in the nature of a guarantee or "reserve"

are collected from subscribers. The account is credited with all such deposits received and is charged with all returns of same.

Losses. This account is charged with all loss payments, and credited with salvage and reinsurance collected.

A Loss Register should be kept, which should contain a complete record of each loss or claim reported, as well as of any reinsurance thereon. In a liability exchange, the Claim Register is one of the most important records, and if properly classified will provide much valuable information as to loss ratios, reserves, etc. In this connection, it might be well to call attention to a tabulating machine which has recently been installed in a number of insurance offices. This is the Hollerith Tabulating Machine. It automatically classifies and tabulates an almost unlimited variety of information, and can be used to great advantage in connection with the premiums and claims, in a liability exchange.

Adjustment Expenses. Expenses of adjusting and settling losses, or claims, are charged to this account. Any amounts recovered from re-insuring companies are credited to the account.

Reinsurance. This account is charged with the premiums paid on business reinsured, and credited with reinsurance premiums returned.

A Reinsurance Register, containing a complete record of each risk reinsured, should be kept. This record should be so arranged as to show the total reinsurance carried by each reinsuring company, and the amount due to each company for reinsurance premiums.

Administrative Expense. The commission of the attorney, or manager, or business written, is charged to this account. The commission or returned premiums is credited to the same account.

Advisory Committee Expense. This account is charged with all expenses incurred by the advisory committee, in the performance of their duties.

Legal Expenses. Lawyers' fees, and other legal expenses, except in connection with losses, are charged to this account.

Premium Taxes account is charged with taxes paid on premium deposits.

Licenses and Fees account is charged with licenses and examination fees paid to State insurance departments.

Sundry Expenses account is charged with exchange on checks and collection expenses.

Savings. This account is charged with the total savings returned to subscribers, the saving on a policy being the unused portion of the premium deposit remaining at the termination of the policy.

Mortgage Loans. A separate account should be kept for each loan, and charged with the amount loaned.

An account should also be kept, showing the amount of collateral loans.

Bonds. A separate account should be kept for each class or issue of bonds, the original charge being the cost of the bonds. (If bonds are purchased at a premium, the book value of same should be reduced at each interest payment date, by charging interest account and crediting the bond account with the pro rata portion of the total premium. If bonds are bought at a discount the book value should be increased at each interest payment date by crediting interest, and charging the bond account with the pro rata portion of the total discount.)

The **Cash** account needs no comment. A separate account should be kept with each bank in which deposits are kept.

If any of the subscribers' funds are invested in certificates of

deposit, an account should be kept, showing the amount of each certificate.

Deposits in Course of Collection. This account shows, at all times, the total amount of unpaid premium deposits charged to subscribers. The total of the gross premium deposits on business written, each month, is charged to this account, and the total of gross premium deposits cancelled is credited. The premium deposits actually returned to subscribers are also charged to the account, and the total premium deposits collected are credited.

If notes are taken for premium deposits due, this account is credited and Bills Receivable account is charged with the amount of such notes.

Attorney-in-Fact. The account with the attorney-in-fact is credited with the commission on business written each month. It is charged with commissions on returned deposits, and with amounts drawn by the attorney.

These accounts will meet the needs of most of the exchanges, and will, with the subsidiary records mentioned, give all the information necessary to prepare the uniform Annual Statement. They are carried in a general or controlling ledger, and show the aggregate of each class of items.

In addition to these aggregate accounts, it is necessary in inter-insurance to keep an account with each subscriber, which will show his individual portion of the total surplus. There are various methods of keeping these individual accounts, some of which involve a great deal of detail work on the part of the accounting department. Numerous expedients have been devised by which much of the labor of keeping the individual accounts has been eliminated, without, in any way sacrificing the accuracy of the accounts. It is not proposed to discuss here these special features, but merely to point out what should appear in the individual accounts. The subscriber's individual account is known by various names in different exchanges—such as "surplus account"—"deposit account"—"underwriting account." Probably the latter name is in more general use than any other, and is the name adopted in this paper.

The first entry on this account is the **Net Deposit**, which is credited to the account. The net deposit is the gross premium deposit less the attorney's commission, and is the amount out of which the subscriber's portion of losses and expenses will be paid.

In some exchanges it is the practice to credit the gross deposit, and charge the commission. There is no logical reason for this method, as the result is the same with either method, and the latter requires two entries where the former requires only one.

In those exchanges that collect an initial deposit, this is also credited to the subscriber's underwriting account. Net deposits on cancellations, as well as initial deposits returned, are charged to the underwriting account. Any risks reinsured should be treated as cancellations and the net deposit on the portion reinsured charged to the underwriting account, as it reduces the balance available for the payment of losses and expenses.

Losses and expenses are charged to individual subscribers on a pro rata basis. This is done by charging each subscriber whose policy was in force at the time the loss or expense was incurred, with such percentage of said loss or expense as the annual premium on his policy bears to the total annual premiums in force at the time. Some of the exchanges have found it a great convenience to keep a separate underwriting account with each policy, so that one subscriber may have several underwriting accounts, which are merged

into one account as the various policies terminate, either by cancellation or expiration.

It will be readily appreciated that in an exchange with a large number of subscribers, and especially in a liability exchange, the pro rating of losses involves an immense amount of work, and it is in this feature of the accounting that the greatest improvement has been made in recent years by some of the exchanges in the way of labor-saving expedients.

The pro rata portion of losses and expenses is charged to the subscriber's underwriting account.

After all items of loss and expense chargeable to a subscriber have been posted to his underwriting account, the credit balance remaining is the amount returnable to him as a saving. It is the practice with most of the exchanges to return only a portion of this saving, retaining the balance to create a "reserve," each subscriber's reserve being left to the credit of his individual underwriting account until a fixed amount is built up, varying from 50% to 200% of the average annual deposit. This "reserve" is subject to demand on the cancellation of the subscriber's contract.

When all apportionments have been made, and the posting completed, the total of all the individual surplus balances should equal the surplus as shown by the general financial statement of the exchange.

In addition to the underwriting account, an account is kept with each subscriber, similar to the agent's account in a stock company. These accounts are usually called "premium" accounts. This account is charged with the gross premium deposit on the subscriber's policy, and credited with the gross deposit on cancellations. Deposits collected are credited, and deposits returned on cancellations are charged to this account.

The total of the balances on all the premium accounts should equal the balance on the "Deposits in Course of Collection" account in the controlling ledger, plus the balance on "Bills Receivable" account.

There is one item of liability provided for in the committee blank which I have not mentioned, and that is the Reserve for Unearned Premiums. While our statutes provide that the exchanges must at all times maintain as a reserve a sum in cash or convertible securities, this is an anomaly in the statement blank as well as in the law, there being no unearned premium liability in inter-insurance as there is with a stock company. In a stock company, this item represents the amount of premiums on business in force which the company has not yet earned, and which it is not entitled to carry to profit and loss. In inter-insurance, as there is no **earned** premium (but merely a deposit out of which each subscriber's portion of losses are paid), there can be no **unearned** premium. The entire unexpended portion of each subscriber's deposit belongs to him. In other words, the entire surplus belongs to the policyholders (or subscribers), while in a stock company the surplus belongs to the company. Such an item is really meaningless in the statement, as, while it appears as a liability of the exchange, it is a liability to the subscribers, who compose the exchange.

Much of the difficulty connected with the keeping of inter-insurance books comes from confusion of the two different accounts kept with each subscriber, and it is very important that the persons charged with the keeping of the accounts should be thoroughly familiar with the theory of reciprocal insurance, and fix clearly in mind the two relationships each subscriber bears to the other subscribers—these being: first, a grantor of indemnity to all other sub-

scribers, and, second, a recipient of indemnity from all other subscribers.

I believe if all the inter-insurance exchanges should adopt the system here proposed, with such modifications as may be required to meet local conditions, that they would avoid much of the difficulty heretofore experienced in preparing their annual reports to the departments, and would greatly facilitate the work of the department examiners, with a corresponding decrease in the item of examination fees.

In the preparation of this paper I am indebted to others for much of the subject matter presented. I especially desire to express my thanks to Mr. F. A. Smith, of the firm of Smith & Brodie, Certified Public Accountants of Kansas City, Missouri. I feel that to him is due credit for whatever may be of value in the outline which is suggested as forming a satisfactory basis for inter-insurance accounts.

THE BEST WAY OF OBTAINING CORRECT ANNUAL STATEMENTS.

By Robert J. Merrill, Insurance Commissioner of New Hampshire.

I must confess at the outset that this is quite the most difficult subject that I have ever struggled with, and I have little confidence in my ability to present anything which will be of any particular service in discovering the Best Way of Obtaining Correct Annual Statements. Aside from the fact that a comparatively limited experience with the details of annual statements filed with my department does not permit me to speak with much weight of authority on the subject, two main difficulties immediately present themselves, which seem to render impossible a strict or even very close following of the title assigned for my topic. In the first place, who can say what the Best Way of Doing Anything is, or that there even is a Best Way? Again, who can say what a correct annual statement is? This is entirely a matter of opinion, on which our expert accounting and auditing subordinates are far from being in agreement.

Therefore, having suggested the impossibility of doing much with the topic assigned me, I shall not attempt such impossibility, but will try and present a few thoughts on possible improvements in the manner of obtaining annual statements, so that they may serve the purposes for which they are required to be filed and published.

In order to gain time and postpone as long as possible even such a partial conformity to the topic, I here insert something in the way of a discussion of the elements which enter into the make-up of a theoretically correct statement—much safer ground for me than the more specific limits of my subject, even as I have modified it.

The primary reason for requiring annual statements is to ascertain the financial standing of a given company by which to measure its ability to meet its obligations to the public. It comes under the insurance department's duty to see that the companies under its supervision furnish safe and adequate protection. For this purpose, a correct statement is one that shows correctly the assets and liabilities of the company, with a supplementary income and disbursement exhibit which will connect the statement with that for the previous year.

Another important reason for requiring statements is to furnish such information in regard to the operation of the companies as will aid the departments in the exercise of their secondary function of determining the cost of protection, such information to be used

in the consideration of various collateral subjects: manner of conduct of the business, rates, prevention of loss, etc. From this standpoint a correct annual statement is one which not only shows correctly a company's assets and liabilities, but also gives correctly classified and segregated statements of its income and disbursements, to be related to the statement of assets and liabilities not merely so as to show the company's financial condition year by year, but also for the purpose of giving direct and positive information on the subject of costs and methods of the business.

Still another use for annual statements which should be considered, is their value as component parts of the economic statistics of the country. We are now beginning to appreciate the importance of statistical information properly gathered and scientifically treated, and its usefulness as the basis for the correct solution of many ills which beset society. It is important that a company's annual statement give the record of the company furnishing it, in such detail that, combined with others, correct statistical information from this larger viewpoint may be obtained. Such a statement must be in accordance with uniform requirements as to valuations of assets and liabilities and as to the treatment and classification of income and disbursements.

Now, taking these three reasons for the requirements of annual statements into consideration together, it is apparent that a correct annual statement assumes a different aspect from that which is presented in considering any one alone. So that it is not sufficient to determine that the assets and liabilities of the company indicate solvency or otherwise, nor that the record of the company, as disclosed by its income and disbursement exhibits and by comparisons from year to year, shows progress or the contrary. It is also essential that the valuations of assets and liabilities and the classification and treatment of items of income and outgo, be upon a uniform basis arrived at by the application of carefully considered rules; this not only that the statistics may be correctly combined with others to obtain a correct statistical record, but in order that the record and condition of a specific company may be correctly stated.

Again, if the statistical information to be derived from these returns is to be of any real value in arriving at right conclusions as to methods, rates, and costs, it is not sufficient to ascertain the fact of a company's solvency. Its exact condition and the processes by which it arrived there, must be disclosed by its statement, by the treatment of the various items which compose it upon a similar uniform basis.

Viewed thus, annual statements lose their character of dead, dull arrays of figures and take their places among the living annals of human progress.

And yet occasionally they are works of fiction in whole or in part. Sometimes this must be, else the company would be obliged to carry out much earlier its reorganization and refinancing operations—its strategic shortening of the lines, with which we are all familiar. Sometimes the error occurs on account of the superior wisdom of some company accountant who dares to set up his opinion as to the treatment of some item in proud defiance of the combined intellect of this Convention as made known to common men by the omnipotent, almost omniscient, Committee on Blanks. Sometimes carelessness, or a perversity which will not permit a reasonable treatment of the factors making up the account, or plain, everyday ignorance of elementary accounting principles, furnish incorrect statements for our files and work for our auditors.

But I cannot much longer defer my suggestions for improving

the situation with which we are confronted. These suggestions are offered with much trepidation and some hope.

Generally it would seem that a little closer watch kept by an insurance department over the accounting methods of the companies within its jurisdiction, with the end of bringing them into conformity with the annual statement items, a little closer relationship between the accounting forces of such companies and their home departments, frequent intercourse and frank discussion of particular questions, would result in a better conception of the requirements of the statement and in fewer errors in the translation of a company's financial showing to terms of the blank. The annual statements blanks which have been evolved under the direction of this Convention are a distinct contribution to the proper conduct of the business. They represent years of growth, and it may seem that they have reached that stage of almost perfection which makes it difficult to suggest any change except as the needs of the business as interpreted by its supervisors demand additional information. One of the chief benefits which follows as a result of the use of the Convention uniform blanks is the standardization of the treatment of given items. Yet errors and inconsistencies do occur. It seems to be impossible for company accountants to treat all of the items in any statement in exact accord with the requirements of the blanks. We hear much in the consideration of economics of the law of error, which means, as I understand it, that the human mind is so constituted that, given a possible alternative, it will choose the wrong way about every other time, leaving the average fairly satisfactory. This being the case, may it not be a suggestion worth considering that the margin of error be reduced to lower terms by the insertion on the blank of more copious instructions and examples? I make this suggestion after an examination of the uniform statements prescribed for transportation companies by the Interstate Commerce Commission, a wonderful example of the value of co-operation which has made over the accounting systems of the railroads and has provided accurate and correctly related statistics with reference to that important branch of the business of the country. The railroad statement also exemplifies the correct method of handling one feature of our statements which has long seemed to me to be capable of improvement, namely: a classification of the disbursement page, so that related matters may be more intimately grouped, and thus render the interpretation of the blank more intelligible.

Summing up these few and indefinite ideas, it would seem that more nearly correct annual statements might be obtained by more detailed instructions on the blank as to the treatment of particular items; a classification of disbursements; closer relationship between departments and their domestic companies; educating them to the extent needed; insistence on the use of the uniform standards of valuation prescribed by this Convention, and a close audit and examination of the statements filed with each department.

To these suggestions I will add another: That the departments themselves come to an agreement as to the correct way of treating various items, which can be arranged by co-operation in auditing, correspondence and conference.

And when all is done there will still be left an irreducible minimum of incorrigibles who will continue to misunderstand requirements, misinterpret instructions and who, when their attention is called to the errors, will send that most disconcerting response—Authority to make such corrections as are necessary to make their statements agree with the wishes of the department.

DEPARTMENTAL CO-OPERATION IN AUDITING, PREPARING AND PRINTING ANNUAL REPORTS.

By F. H. Hardison, Insurance Commissioner of Massachusetts.

My first step in preparing this paper on departmental co-operation in auditing and preparing and publishing Annual Reports was to try to ascertain from the various insurance departments of the country the approximate amount of time that each department spends in auditing the annual statements made by the insurance companies in preparing the copy for the printers and reading the proof. I also wanted to know how full a report each department published, and whether anything in the law of the State would prohibit the printing of the Report by some printing house to be designated by the Convention. Accordingly I sent to each department, hoping for answers, the following questions:

1. Approximately how many days, in the aggregate, does it take your department annually to check up and audit the annual statements of insurance companies, including the time of auditors and others in interviews relating to statements and writing letters seeking for information regarding them, but not including in this work the work specified in the two following questions?

2. How many days to verify the values of stocks and bonds and substitute Convention quotations where the companies use other values for stocks and bonds in their annual statements?

3. If such substitution is not made, how much time in days is used in verifying the correctness of stock and bond values in assets at quotations given by the companies?

4. How much time in days is used in preparing the stock and bond schedules for the printer?

5. How much time in days for reading proof of annual reports?

6. How much time in days of clerical work in making abstracts as copy for the printer, including tables?

7. Does your law require you to have all of the printing of your department done by a "State printer?"

8. If not, would it be open to you to have the Annual Insurance Reports printed co-operatively by one printer to be selected by the Insurance Commissioners' Convention?

9. Annual cost of printing your Insurance Report. How many copies are printed? How many pages?

I received replies from nearly all of those addressed, but, as you doubtless anticipate, I did not get very definite information from all Commissioners on some of the questions. Indeed, I found that Insurance Commissioners have about the same characteristics as a whole as insurance companies when asked for information. Some replied that data was lacking to answer some of the questions, some responded in painstaking detail, some evidently without carefully reading the questions, some ambiguously, and some not at all. Against insurance companies that do not respond to our inquiries we have a remedy, but alas! the Insurance Commissioner is safe for he knows that his associates cannot revoke his authority, and that probably they will not hold him up to pitiless publicity. I obtained enough information, however, on some questions to warrant a recommendation.

As to the number of reports printed in each State, the number of pages embraced in the reports, and the cost thereof, fairly definite answers came from most of the State. From these figures it is safe to conclude that the Annual Insurance Reports of all the States comprise not less than 80,000,000 printed pages, which are contained in about 110,000 volumes. New York, of course, takes the lead, printing annually five volumes, aggregating 5,050 pages.

Four thousand copies of each volume are printed, making a grand aggregate annually of 20,200,000 pages at a cost of \$19,000. Pennsylvania is second, with two volumes and 15,500,000 pages, at a cost of \$6,000. Illinois is third, with four volumes and 5,650,000 pages, at a cost of \$5,000. Connecticut follows closely, with 5,234,000 pages in three volumes, and costing \$17,590. The output of Massachusetts is 4,700,000 pages in two volumes, at a cost of \$7,600. Iowa prints 3,843,000 pages in three volumes, at a cost of \$3,800; Ohio, 3,684,000 pages in three volumes, at a cost of \$6,000, and Michigan 3,570,000 pages in two volumes, at a cost of \$5,000. These eight States print 62,381,000 pages, at a cost of \$69,990 for printing, or \$1.12 per 1,000 pages of output. As the number of pages printed by all the States is not far from 80,000,000, and the cost is about \$115,000, the cost per 1,000 pages is \$1.43. The difference in cost per 1,000 pages, as shown by these figures, is very great, but may in part at least, I assume, be accounted for by size of the edition, number of ems per page, quality of paper, political influence, union labor and perhaps other considerations. As to this phase of the subject, I have attempted no investigation.

Nearly all the States have laws which require the printing to be done by the State printer, which laws would have to be amended to have the work done co-operatively.

Besides this difficulty, there are others which would operate against any plan for co-operative printing. Among these obstacles are the following:

1. Not all the companies are in all the States. No State would want to carry in its report the statement of an unadmitted company which perhaps could not be admitted. Hence a uniform edition could not be printed for this reason.

2. The laws of the States differ as to the allowance of reinsurance as credits and as to the allowance of assets in alien companies so that the same company admitted both to New York and Massachusetts might present annual statements to each which differed materially and both be correct under the differing laws. Moreover, each State requires certain special information in regard to the insurance business within its own borders, which in some form it presents in its annual report. The special information which New York carries respecting insurance in New York, Massachusetts would not care for in its report, nor would New York want to present the figures for Massachusetts.

3. At least a dozen States expend less than \$1,000 annually for publishing annual reports, and they would doubtless prefer to expend that amount in presenting a report better adapted perhaps to their communities than to put the same amount in a co-operatively printed report, which might afford a wider range of information. New York would not want either its Fire, Life or Casualty reports abridged; Florida would not want such detailed reports; nor could it purchase many for its present expenditure for that purpose.

4. Co-operative printing of reports, if carried to the limit, would mean the issuance of a report covering all authorized insurance companies wherever located, the same as the National Government would issue were insurance under its supervision and it acted in place of the State authorities in the supervision of insurance companies.

These are some of the obstacles to co-operative action by the Convention in printing Annual Reports. I doubt if they are likely to be overcome in the near future. But this does not necessarily mean that there can be no co-operation in preparing reports for the printer. Indeed, I understand that Maine, New Hampshire and

Vermont have in use a plan by which each does a certain part of this work and furnishes it to each of the others.

Take the matter of auditing, in which Massachusetts spends over 250 days' of work annually. There is much of this work that is done by other States. At least six States consume more time in audits than Massachusetts. If the auditors of those States could be brought together and come to an agreement upon the details of a proper audit, this agreement to be the result of a conference at which each auditor should become posted as to points which should be looked after for other States than his own, the annual statements of the companies could be divided up among the auditors of these States and the reports audited by each furnished to each of the others. I see nothing insuperable to a degree of co-operation in auditing annual statements; but perhaps it would be better at the outset for groups of States to test the plan. For instance, there are three States in the East which make pretty complete audits—New York, Connecticut and Massachusetts. There is another group in the Middle West which could readily combine for dividing up the work. As for Massachusetts, it would be glad to join such a group for auditing purposes, believing that satisfactory results could be obtained at one-third of the cost if several States constituted a group. There would also be a great saving in time, which would enable the departments to issue their reports earlier in the year.

I come now to one place where it seems to be quite practicable to have co-operation between Insurance Departments. I refer to the checking up and verifying the values of stocks and bonds. This is a work of considerable magnitude. In the Massachusetts Department the value given for each item of stocks and bonds by each company, whether it be owned or held as collateral for a loan, is checked with the quotation given in the book of values of such securities issued by authority of the Convention. Even if all companies used Convention values this would be quite a task, as there are many thousands of items.

In addition to this checking to test the correctness of the work when Convention values are used, we test the accuracy of the extensions. For instance, if a company has \$9,800 in bonds par value, and the company uses the Convention rate of 98, we determine whether the figure at which the company carries these bonds into its assets is correct. Sometimes we find errors in these extensions.

But a large majority of the companies do not use Convention values, presumably because they are not available in season so that it is convenient, or feasible even, to have the statements made up on the basis of such values, ready in the time required by the laws of some of the States. Where company values are used instead of Convention values, our department substitutes the latter, which renders it necessary that an entirely new list of stock and bond values be substituted. The proper values are taken from the Convention book, these values applied to the corresponding holdings, and the results brought into one sum to ascertain the total market value of the stocks and bonds contained in the schedule furnished by a company. This work, after being done by one clerk, is always verified completely by another. In our department this task on stock and bond schedules takes approximately 160 days of work.

The purpose of this expense is to ascertain the correct asset value, on an agreed-upon basis, of the stocks and bonds held by the respective companies. That is all. All Insurance Departments working separately on this task would, if their work were correctly done, reach exactly the same result for the same companies,

for there can be but one correct result. Whatever one agency works out these results correctly could furnish to each Insurance Department exactly the same figures as the departments would work out for themselves.

Not many Insurance Departments make these computations. The most of them accept company values. I assume that they would prefer to use the Convention quotations, but their office force is small, and it appears to be a prodigious task, as it really is, to undertake to do the work I have outlined as necessary to change to Convention values.

It appears to me that it would be feasible and desirable for this Convention to have this work of verifying the values of stocks and bonds in the company schedules, and of making new values for these schedules on the Convention basis where the companies use their own values, done by some central agency which would furnish the correct results to each department. Taking the amount of time spent in Massachusetts in doing this work as the basis, it would require about 160 days' of work by some agency to complete it. That agency might be some Insurance Department, or some independent concern hired for the purpose on a similar basis as an expert is now employed to give us the values. The cost on the basis of the time it takes the Massachusetts Department to get these schedules corrected and verified, would be about \$400 for the labor, and then there would be the expense of having the revised schedules reproduced in sufficient numbers to give each Insurance Department the number of copies it desired.

If only the ten States which use the Convention values to the exclusion of all other values, care to join in this work of verification, and the Convention does not want to undertake the work, it seems to me that it would pay those ten States to get together and have it done once for them all, instead of having the same work done ten times.

Once this plan were in operation I believe that all Insurance Departments would desire to participate, for there appears to be no justification in allowing companies to carry a given bond as an asset at their own figure, thus perhaps using for the same bond as many different values as there are insurance companies which own it.

In the old reports of the Massachusetts Department, the stock and bond schedules were published, using the values given by the companies, and it is interesting now to trace a bond through those different lists. The variations sometimes are astonishing. The company that wanted to pad assets would use a liberal value, while one which wished to conceal them—and there were such companies—took the opposite course. When in 1906 we first used in our reports uniform stock and bond values furnished by experts, some of the companies' assets were increased to a remarkable extent, while some went in the other direction. One fire company's stock and bond values the first year were increased by the department over \$1,650,000 over its own returns, a case of "conservatism" in the statement of values, the motive for which was not to show too high a degree of prosperity. The same company's stocks and bonds owned at the close of the year 1915 were carried into assets at less than \$90,000 below Convention values.

The use of expert values presented a somewhat startling innovation when first used. I think the effect of the adoption of such values by the Convention has been so salutary that no one would want to go back to the old method, for, if the Convention values are not used, the fact that they are available must have an influence

upon those companies which might for any reason be tempted to use values which could not be justified. My belief is that those values which we secure at considerable cost should be made still more available and useful by having them applied to each company's schedule, and that those schedules with the correct values be furnished to each department, this work to be done by some responsible agency employed by the Convention for that purpose.

If all departments were undertaking to do this work for themselves carefully and completely, it would require, I believe, not less than 150 days' work for each, making the big total of 7,200 days, which, at \$2 per day, would amount to nearly \$15,000 for correcting schedules.

I think that it would be well for the Convention to make a beginning in the matter of co-operation in saving work and expense in preparing our Annual Reports, and recommend that the subject be referred to some committee for report at the December meeting of the Convention.

CAN PRINTED STATEMENTS BE MADE TO HARMONIZE WITH CONVENTION FORMS?

By H. Pierson Hammond, Actuary Insurance Department of Connecticut.

When I first read the subject of the paper which the Committee on Program asked me to prepare and deliver at this Convention, I was impressed with the fact that it was a subject of comparatively little importance.

Practically all of the material contained in the annual statements of insurance companies is already being accepted by the Insurance Departments in printed form. That portion of these statements which is not now universally accepted in this form, namely: the financial part of the statement covering income, disbursements, assets and liabilities, and found on pages 2, 3, 4, and 5 of the Convention Edition of the Blanks, is accepted in printed form by the majority of the Insurance Departments of the country. Those departments which still insist that the financial statement, as distinguished from the schedules and exhibits must be hand written, are not numerous. From necessity, therefore, my discussion must be confined to the printing of only four pages of the Annual Statements which, as a rule, cover a larger number of pages. And my remarks are of necessity more particularly intended for the Insurance Commissioners and Superintendents of the minority, although I trust all will be interested.

"Can printed statements be made to harmonize with Convention Forms?" There can be but one answer to this question, and that answer is in the affirmative. It is quite within the realm of possibility that insurance companies can print the four pages of their returns referred to above, in such a way as to harmonize with the Convention Forms.

Those who maintain that printed statements should be accepted, contend first that the chance of error is minimized if the statement be printed. The original statement, of course, is written, copy sent to the printer and proof carefully verified. It follows, therefore, that every printed copy of the statement must be correct, and that each Insurance Department with which the statement is filed is in possession of correct returns.

If, in the preparation of these printed statements, the Convention Edition of the blank is followed literally and carefully, the result

is a printed statement which is in thorough accord with the Convention Edition, and which, therefore, must harmonize with it and should be accepted by all Insurance Departments using this edition.

Complaint has also been made by some of the larger insurance companies that the present blanks do not afford sufficient space on pages 2 to 5 to permit the inclusion thereon of the numerous miscellaneous items, if the statements be handwritten. As is well known, such items are numerous and increasing in number rather than decreasing.

The item of expense is another factor which is advanced in favor of the printed statement. Whenever statements have to be written, the clerical force of the company is compelled to stop other important work and take up the writing and re-writing of annual statements. Each copy must be carefully compared with the original and corrections made. This interruption of routine work, and the necessary attendant confusion arising therefrom, take a considerable amount of time which is more valuable during the first part of the year than it would be if the work could be postponed until later. This is especially true of multiple line and associated companies, which have two, three or four statements to file in each State in which they are authorized. The natural conclusion is that printed statements cost less to produce in any number than do written statements. Therefore they should be accepted by all Insurance Departments.

Now, let us look for a few minutes at the work of this Convention in connection with the annual statement blanks. The Committee on Blanks, under the very efficient and careful direction of its Chairman, the Deputy Superintendent of Insurance of New York, Mr. Henry D. Appleton, has for years striven to meet the demands of the companies with fairness and equity. It can be said that since the genesis of the Convention Edition of the blanks, every change suggested has been carefully considered by this committee and every advantage which could be granted consistently given to the companies.

As a result the blanks of today are uniform in practically all States and the companies are enjoying the fruits of this co-operation. This fact stands out clear. In addition to this uniformity, which is very real and of intrinsic value, comes the oft-repeated insistent demand for printed statements. We must of course answer this request and reply to the arguments which have preceded. Inasmuch as no one else appears on the program to undertake this task, I presume that it was intended that I should do so.

I probably have had charge of the examination and audit of from twenty-five hundred to three thousand annual statements of insurance companies, in which the financial pages with which we are concerned were written by hand. The compilation and accuracy of these statements have been extremely satisfactory. Errors due to writing the statements have been rare and usually obvious, so that little trouble has resulted therefrom. The number of such statements in which errors were found has been under 1 per cent.—my actual estimate being between a third and a half of 1 per cent, so that the argument that the handwritten statements tend to be inaccurate is of minor importance. On the other hand, a single error in an edition of printed statements appears in each and every copy printed, whereas the errors in handwritten statements do not necessarily appear in each statement so written.

At the outset, I stated that to my mind printed statements **can be made** to harmonize with the Convention Forms. I still feel that this is **possible** but extremely **improbable**. The harmony sought for is a

phenomenon which is rarely if ever seen. The written copy for a printed statement shows, for example, on page 4, line 1, real estate owned exclusive of home office property, the home office property being interlined for convenience by the company as a separate item. This is perfectly clear in the copy. The printed statement, however, appears with the interlineal item numbered two, taking the place of line number two appearing on the Convention Edition of the blank, which relates to the mortgage investments of the company, of which there are none. Nature abhors a vacuum and it has been my experience that a printed statement abhors a vacuous line. You can find numerous examples. The result is that unless this statement and all other printed statements are read back with infinite care by the Insurance Departments, the audit, abstract and statistical work is thrown into confusion and seriously delayed.

This you may say is suppositional. Take some real cases, then. Turn back to the statistical table in the Connecticut Report of 1910, showing the classification of disbursements, and you will find there that Company A, a mutual insurance company paid dividends to stockholders during the year 1909. An examination of the statement showed that a line on the disbursement page had been taken out and another item printed therein so cleverly that no one had detected it during the audit work, and the error was only noted after the department report had been issued. I might add that, shortly after this error appeared, I learned from an officer of the company, unofficially, that the company had noted the error in the Connecticut Report, assumed the responsibility therefor, and had reprimanded the over zealous clerk. And this all happened in spite of a written statement. What might have been the result had the statement been printed?

Company B filed with the Insurance Department of Connecticut a printed statement. Curiosity led me to examine it somewhat before returning it. I found within ten minutes five material errors on the first four pages. These errors would probably not have been made had the statement been written and compared carefully with the company's original, and the copy of the statement of the previous year.

Again, Company C filed its printed statement with various lines so renumbered to suit its own convenience that had it been accepted at all, the statement would have had to be changed in pen and ink or reprinted.

Again, Company D is accustomed to file its written statement with one of the Insurance Departments represented here and forward a printed edition to the department for certification. Of course, these printed statements are carefully proof-read, yet, during the last ten years errors have been noted by the Insurance Department in question in seven of these annual editions, one of the editions being so poorly printed, I am told, that a reprint was necessary.

Company E recently submitted to me a statement which was a fac simile reproduction of the original written statement. Without a careful examination, I pronounced this result as excellent, and then handed the statement to an examiner of the department, who had not previously seen it. Within five minutes, and in the presence of an officer of the company, three errors were found, much to the chagrin of the officer.

Company F filed a photographic reproduction of its original statement, which was written upon what was termed by the company a "Convention Blank." An examination of the photographic copy showed that the original did not follow the Convention Blank

in all particulars, and, therefore, did not conform to the blank which had been sent to the company.

These examples suffice to demonstrate that even with the care exercised, which we are often assured is exercised, the Convention Edition is not followed "literally and carefully," and the result is not "a printed statement which is in thorough accord with the Convention Edition."

In answer to the suggestion that the blanks do not afford room enough to enter numerous miscellaneous items, I will say that it is usual to accept printed inserts attached in the proper places, to the statements, even though the statements are otherwise handwritten.

As to the argument advanced to the effect that written statements cost more to produce than printed ones, I can only say that this probably is true—nevertheless, taking into consideration the increased business and the multiple lines which insurance companies are writing now, as compared with the business of twenty years ago, it is probably costing proportionately less to produce statements today than formerly. On the other hand, it would obviously cost the Insurance Departments more to handle the printed statements. Every such statement must be carefully compared with the Convention Edition. This work must be done critically in order to detect such errors as I have set forth above. This proceeding must be repeated by each department, which still further multiplies the work. In all fairness it should be said, of course, that if the subject of filing printed statements proves to be an important one in the future, other things being equal, the Insurance Departments should be equipped to assume this added responsibility.

As to the present importance of the subject under consideration, I have estimated that the number of pages in the annual statements for 1915, of all classes of companies, filed with the Connecticut Insurance Department, was 12,500. This, of course, includes all schedules and exhibits as well as the financial pages. Of this total number, we are interested in but four pages of each statement, or approximately 1,250 pages out of 12,500. When companies are now permitted to print 90% of their statements, is this really a matter of much importance? It is a fact that only the larger companies have ever expressed a desire to print the financial pages. If printed statements were accepted by the Insurance Departments, I presume more of the companies would print than do now. It is interesting to note that out of the total number of pages referred to above, there were over 7,000 pages in the returns of the life companies. Several of the companies of this class are already printing 99 pages out of every hundred, and writing but one, when written statements are insisted upon.

Taking the class as a whole, the average is about 98 1-4 pages printed to 1 3-4 pages written. The stock fire companies would benefit more in proportion than would life companies. Here the ratio of written pages to the total is about 20%. On the assumption that all of these companies reporting to the Connecticut Insurance Department were authorized to transact business in all States what really would the actual advantage be in practice, if they could file printed statements? As a practical matter, possibly one-half of the States now require written statements. I do not believe that one-half of the companies would avail themselves of the privilege of printing if it were extended. Under these assumptions, the former ratio of 10% of the total pages written would probably not exceed 2 1-2% for all classes, and in the case of life companies, the ratio would be insignificant. I think you will agree

with me that in the ultimate analysis this subject is not a very momentous one.

But I can hear the Insurance Commissioner of Massachusetts, to whom we are indebted for suggesting that a paper be written upon this subject, say that I have discussed printed and written statements and said little or nothing about the question of *harmonizing* printed statements with the Convention Edition. This is a fair criticism. I have endeavored, however, to point out some of the troubles which this question has raised in the past, and hope we may be able to avoid them in the future. I am still, as I always have been, opposed to accepting printed statements. However, I will say, for the benefit of those who are interested, that if I were on the "other side of the fence" I would try some experiments and find, if possible, the harmony sought for, but which apparently has eluded our grasp thus far. I believe I would submit for your consideration under such circumstances either—

(1) A statement printed from the same type used in producing the Convention Edition for the Insurance of my home State, or

(2) If such Convention Edition did not conform exactly to the one authorized by the National Convention of Insurance Commissioners, I would use sheets that did conform, preferably those produced by that printer who was furnishing the majority of State Insurance Departments with their supply of blanks, and have the printer state upon each sheet that the sheets were printed from the same type or plates as had been used in printing the supply for the departments. In addition, I would use red ink in printing the information added by the company, and

(3) If all these failed, I would attempt, by means of a photographic process or other method, to reproduce the original handwritten statement so clearly that the result would be a fac simile of the original, and file it as a written statement. I think you would all accept it.

Just a word in conclusion. I would not betray my sense of fairness by closing this paper without saying that my good friend, the Insurance Commissioner of Connecticut, is not entirely in accord with my views. I have thus far labored with him in vain. I must, therefore, assume the responsibility for the position which I have taken in regard to the subject matter presented.

LIFE INSURANCE FROM THE STANDPOINT OF A LAYMAN.

By W. K. Chorn, Superintendent Insurance of Missouri.

The year 1843 saw the beginning of life insurance as it exists in this country today. It has since grown to be the most gigantic business structure of all time. With but an modest beginning, in a new and untried world, life insurance came into being.

The millions paid to beneficiaries since that time stand as a heroic monument to the courage, the foresight and splendid judgment of those who labored in the beginning. Mortal man, though endowed with all the genius of a Raphael, could but fail to truly picture for us its benefits to humanity—the pitiable want and suffering it has relieved. A Michael Angelo, great master that he was, failed in his conception of things beautiful, to paint for us a picture, to draw for us the plans, to build for us a structure whose beauty and symmetry do justice to this great institution in interpreting its ultimate benefit to humankind.

Few there were in its inception, in any walk of life, with any degree of learning, that understood truly its meaning. But with fortitude and courage these pioneers labored,—building, unconsciously perhaps, the cornerstone upon which rests this mightiest of all business structures.

From its inception life insurance has, as a business and as an agency for the relief and betterment of mankind, made steady but sure progress. It has continued to thrive and grow under any and all conditions. It has withstood the shock of war. It has passed majestically through the stormy periods of the country's financial life without a blemish, without a scar. The money panics of this country have made no more impression upon the life insurance business than would a bombardment with navy beans make upon the Rock of Gibraltar.

With a past record of things achieved, of promises kept, of contractual obligations fulfilled, of want and suffering relieved, of mortgages paid, of children educated, of washtubs banished, of sunlight where there must have been darkness, it is but reasonable for the prospective insurer, in whose breast abides the knowledge of these things, to look into the future of life insurance with a confidence born of past achievements. But alas! His kind are few, and to the many that are not in possession of such knowledge must attention be directed. When, by energy, foresight, proper direction and intelligence this knowledge is imparted to all, theirs will be the brightest star in the business firmament, the most brilliant jewel in all the diadem. Its service is universal; it recognizes neither border, breed nor birth; it responds alike to the beckoning hand of the rich as well as the faltering call of the poor.

The rich desire it because it stands as an insurmountable barrier to business disaster. Without it the prosperity and riches of today may be but the vanishing clouds of despair and ruin on the morrow. The poor demand it because it is the one thing that drives agony and despair from the souls of dying men. I submit that it is man's solemn and sacred duty to his family and to his country, while on earth today, to provide, in so far as he can, a checkmate against the pitiless hand of want and poverty that may follow his earthly farewell.

The average American business man, as well as the toiler by the day, generous to a fault, perhaps, with an undying love for his family, is all too prone to confine his vision to the present and forget what the future may have in store for his loved ones.

Brave men fear not the hideous monster, Death. Can anything be more inspiring? Can anything cause our hearts to beat faster and send our warm life blood pulsating through our bodies than the heroic conduct of those splendid men of the Titanic? Rich men became poor men—poor men became rich men all in the course of a few minutes. There was John Jacob Astor, with riches untold, stepping back from a life boat where he had placed an invalid wife, to surrender his place to a steerage passenger. Major Archie Butt, aide to the President, stepped back, doffed his cap and said, "Remember me to the folks at home." Even the musicians in the band, as the great ship took her final plunge, continued to play, "Nearer, My God, to Thee." Nothing could be more sublime. Contrast this state of mind, if you please, with that of the average home-loving man feeling the approach of death, but who has failed miserably to provide for that home after his demise. What must his feelings be? He thinks of his helpmate, who has borne with him his burdens, who has shared with him his joys—of the little ones, the joy and pride of his life. What shall I do! What shall I do! The thought of loved ones being thrown upon the cold, piti-

less world through lack of foresight is maddening. What a prospect for them to face. Unused to manual labor, used to the best the land affords, with source of income severed, the dreary outlook is maddening.

The mother must swallow her pride and go forth into this unsympathetic world to battle for the existence of herself and offspring. If perchance she enjoys the advantages of an education her condition is somewhat bettered, but not relieved. If circumstances have prevented her gaining an education, the inevitable is manual labor—the washtub, or perhaps worse still. Who knows!

“The bravest battle that ever was fought!
 Shall I tell you where and when?
 On the maps of the world you will find it not—
 ’Tis fought by the mothers of men.
 Nay, not with cannon or battle shot,
 With sword or nobler pen!
 Nay, not with eloquent words of thought
 From mouths of wonderful men.
 But deep in the walled-up woman’s heart—
 Of woman that would not yield,
 But bravely, silently, bore her part—
 Lo, there is that battlefield.
 No marshalling troop, no bivouac song,
 No banner to gleam and wave;
 But oh, their heart-rending battles, they last
 From babyhood to the grave.
 Yet faithful till as a bridge of stars,
 She fights in her walled-up town—
 Fights on and on in endless wars,
 Then, silent, unseen, goes down.”
 * * * * *

I hope, I trust, that as a supervising official, I may be permitted to contribute a mite towards opening the eyes of struggling humanity to the benefits of life insurance.

Agent.

The agent of a life insurance company is an indispensable asset. The relations of the business of life insurance, and the agent, each to the other, are so interwoven that a blow directed at one produces a like effect upon the other. The agent is the propelling power of the business—the rudder which steers the great ship of Humanity towards preparedness for the final struggle through which we must all pass. It is to him that are turned the beseeching eyes of men that need insurance, but who hesitate because they are afraid, uneasy and distrustful. Afraid, because of the lack of a clear understanding of the benefits promised in the contract. Distrustful, because of the complete trust that must be placed in the agent. Uneasy, because of a lurking fear that his aims and objects may be defeated after Death has called him from the scene. A fear, however, not well grounded.

By the lack of a complete understanding of the policy contract on the part of the prospective purchaser, the agent is compelled to act in a fiduciary capacity. His statements concerning the contract are accepted and acted upon. Being so, the agent should be of unquestioned honesty and integrity, with a clear conception of his moral duty.

The peculiar existing relations presuppose the agent to be a person of the highest moral character—a person whose bare statements

carry weight and should be as reliable as his written bond. Nothing else will do. The applicant, by reason of his known unfamiliarity, has a perfect right to demand as much, and the laws of the various States and the supervising officials should guarantee to him that protection.

A slippery, tricky, or dishonest agent has no place in any business. This is especially true of the life insurance business. Here the temptations are great and the opportunities many for a dishonest agent to misrepresent his wares to the prospect. It is made so by reason of the dual capacity in which the very nature of the business compels him to act. That is, the legally authorized agent of the company, and whose status is fixed by law; while at the same time he is serving the applicant in a fiduciary capacity due to the applicant's lack of insurance knowledge. The very nature of the business demands agents of the highest intelligence. The agent should be familiar with and thoroughly understand every provision of the contract, and should be able to explain in a few words, and with intelligence, every provision thereof to the applicant.

An agent who misrepresents a policy of insurance or the benefits thereunder through his failure to thoroughly understand the contract, commits as grave an offense against the public as the dishonest agent who wilfully misrepresents. The effect is the same, the only difference being the absence of moral turpitude.

"A false balance is abomination to the Lord; but a just weight is His delight."

That the legitimate agent may continue to serve the individual, the State, and the company with honor and profit to himself—that the individual, the State and the company may continue to receive and share the benefits of the agent's work unhampered, I respectfully call to your attention the crying public need for a strict agent's qualification law: That the good may be encouraged and fostered, that the bad may be eliminated, that the wheat may be separated from the tares, that honesty and virtue prevail, all to the end that the insuring public may receive the best there is in life insurance with the least possible waste.

The Company.

In looking back over the perspective, future generations will be impressed with the fact that the success of life insurance was made possible by the commanding genius and untiring efforts of the directors of the destinies of the individual company. Theirs were not paths strewn with gold and other riches, and whose thoughts were bathed in the fragrance of the rose; theirs were not palaces of the finest stone and decorated with cloth of the richest gold; theirs were not lives of ease and splendor and who, "Midas like, could turn to Mammon's mint, the golden robe of dying day."

Theirs were paths upon the jagged stones of which was left the blood of pilgrims; theirs were palaces in which the humblest dwell; theirs were lives of hard knocks and adversity tempered with a burning love for struggling humanity. And today the guiding hands of genius are directing the destinies of life insurance. The hand that pulls the throttle; the eye that follows the rail are selected with scrupulous care, for it is to the hand on the throttle and the eye on the rail that are entrusted the most sacred fund ever created by mortal man. A fund created by this great family of ours, to be administered after death has called—for the betterment and protection of those closest and dearest to a heart.

Not only are those officers and directors now in charge burdened with the proper administration of a fund in which is wrapped the happiness of millions of souls, but they must render such an account of their stewardship as will cause other millions to be attracted by life insurance.

Therefore, the objective of those in charge and upon whose shoulders rest the responsibility, should be, and must be, life insurance for all, at the least cost consistent with perfect safety, with standards so high that only the best may pass muster.

I predict the time will surely come when the layman will look upon life insurance as a necessity, a commodity, and society will demand protection against dependent offspring.

COMPLAINT BUREAUS OF THE INSURANCE DEPARTMENTS. THEIR FUNCTION.

By Frank Taggart, Superintendent of Insurance of Ohio.

In the growth of Insurance Departments, it is not difficult to find in the laws creating and enlarging them, the establishing of certain divisions of labor. In this evolution, while general powers and many specific duties were conferred on the chief administrative officer, he was usually specifically authorized to delegate certain of his duties to subordinates such as actuaries, examiners and officers whose duties were to investigate violations of the laws, so that in time each of these became distinct bureaus or heads in the Department of Insurance.

The laws of the several States and territories, with a very singular uniformity, after creating the Department of Insurance and designating the chief administrative officer, contain the following grant of power: "Charged with the execution of all laws relating to insurance and insurance companies doing business in this State."

Then following this general duty are appropriate specific duties and the authority to designate subordinates, whose duties and functions are in terms expressly set forth. As a result of this growth or evolution, we find corps of examiners, forces of actuaries and boards of statisticians, and groups of wardens or those empowered to ferret out violations of insurance laws, but each and all of these with clearly defined duties by way of aiding the chief administrative officer in the work of State supervision.

This express authority may be more or less general, yet there does not seem to have been any intention to confer any authority for any other heads or bureaus in the Departments of Insurance, and no other authority except such as is necessarily implied in the carrying out of the authority granted. A fairly diligent investigation of the laws of the several States fails to disclose any specific or express authority for the State Superintendent or Commissioner, or any subordinate in the Insurance Department, to hear and determine the relative rights or obligations of the insurance companies and their patrons, or for the creation of a Complaint Bureau.

The necessary conclusion, therefore, must be that there exists no express provision for authorizing the creation and maintenance of a Complaint Bureau in the Department of Insurance. This deduction is fully sustained by an extract from a report of the distinguished Commissioner of the State of Massachusetts, Hon. Frank H. Hardison, and I have taken the liberty to quote this extract at length:

"A Need of the Insurance Department."

"One of the functions of the Insurance Department which, however, is not based on any specific provision in the statute, but which has developed naturally as an incident to supervision, is the service rendered in hearing complaints, explaining the provisions of contracts, settling disputed questions and furnishing insurance information generally. The public to quite an extent have come to believe that the Insurance Department was established as much to perform the duties enumerated as to look after the solvency of insurance companies. They see no reason to distinguish between protection from loss through companies becoming insolvent and protection from loss through the failure of a company to settle a claim as the insured thinks it ought to be settled. The result is that the Insurance Department has become a bureau for complaints and information on insurance matters. People are sent here by agents, by those who have been served and frequently by members of the Legislature who sometimes accompany their constituents on such errands.

"It is generally conceded that people should carry a reasonable amount of insurance even though they may not have the knowledge to understand their policies or the means to enforce what they conceive to be their rights against corporations by the employment of lawyers and the agency of the courts. Having paid the premiums and met with losses which they believe, by what the agent told them when they took the insurance, or for other reasons, are covered by the policy, it is nevertheless clearly out of the question in many cases for them to test their rights through the courts, for the amount involved is less than the cost of legal proceedings, and less even than the cost of advice by a competent lawyer. They must drop the claim unless they can obtain help or advice as to their rights elsewhere. Naturally they come to the Insurance Department. Their complaints are heard, and if they appear to have merit, the cases are taken up with the insurance companies and their side of the issue asked for. Frequently, through the good offices of the department, amicable settlements are reached at a great saving of time and expense to the parties in interest. Few cases actually go to litigation which first come to the department for consideration. The companies generally, when claims get to their responsible heads, are ready to settle on a fair basis, even though some subordinate, in excess of zeal in behalf of his company, has tried to drive a hard bargain. Claimants also are generally reasonable when some one whom they believe to be unbiased and who understands the case tells them what his conclusions are.

"This work, however, consumes much time of the department. A complicated case cannot be heard and decided in a minute. Not only must the story of the complainant be heard as an initial step, which may involve time altogether out of proportion to the size of the issue, owing to such causes as lack of mastery of English and comprehension of the contract, but also that of the company, and perhaps other evidence reviewed in order to arrive at a conclusion. Is this work and this time so spent in behalf of the insured worth the while for the State? Should it furnish advice and aid in the settlement of differences over insurance contracts when those with grievances have the courts at their disposal for trying issues? This question is now raised for the reason that a request for an appropriation for a complaint clerk to hear and investigate complaints was not passed upon favorably by a committee of the General Court. Indeed, the issue was raised by a member of the committee to which such requests are referred, whether this work was legiti-

mate for the Insurance Department to undertake when the courts are established tribunals for the settlement of claims.

"The view of the Insurance Commissioner is that this work is a form of welfare service that the State can render at small expense, and that there are few other ways where for so small an outlay so much can be saved for those who ask for the State's assistance, and who would find it a hardship to appeal to the protection of the courts on account of expense and delay. The work hitherto has been done mainly by the Commissioner and his Deputy, but the day has come when, if they are to have time to give to the larger questions of supervision, which are increasing in number and importance year by year, this function, at least as far as obtaining the facts are concerned, must be undertaken by some one else for the department who has the necessary skill, information and judgment for such work. A suitable office must also be furnished. Present quarters, as well as present force of employees of the department are inadequate for properly undertaking to serve the public in respect to the matters pointed out without neglect of other duties.

"An alternative of this, as far as claim settlements are concerned, is the establishment of a board with similar powers to those of the Industrial Accident Board, to which shall be reported not only the facts in respect to all settlements for review, and reopening if not properly made, but also all contested claims for consideration and adjustment."

The existence of Complaint Bureaus in the Departments of Insurance is explained by the fact that the department, through their administrative officers and supervisors, have assumed this power, and the public and insurance companies have acquiesced in the same and yielded to its exercise.

As all insurance is founded in contract, whether entered into under the closest supervision by the State or without any privilege from the State, and as a mere branch of the law merchant, the rights of the parties must be determined by the terms of the contract. Insurance contracts are to be construed according to their terms, like any other contract.

If this is the correct statement, then there is perhaps no basis for a Complaint Bureau, and it would not have any function to perform, for the parties to those contracts are not wards in chancery to be protected against themselves or against each other. If it be said that the amounts in dispute are so small and the insured in many instances so circumstanced that they cannot afford to resort to the courts, the answer may be found in the organization of municipal courts for the express purpose of disposing of disputes of very small amounts and for comparatively indigent persons.

If the Legislature, in its wisdom, owing to the public character of the business of insurance, should provide for tribunals known as Complaint Bureaus, it should also define their powers and authority and make provision for the enforcement of their decrees, and who are to administer their business. In the absence of all such legislation, then the only basis for the existence of Complaint Bureaus and the exercise of any of their functions is the assumption by the Insurance Departments of this power and the acquiescence by the public and the insurance companies.

Therefore the functions of such Complaint Bureaus must be found in the extent of power that each Insurance Department may deem proper to assume, and the extent the public and the insurance companies will acquiesce therein.

When I came into the Insurance Department of Ohio I found the practice prevalent for the Superintendent, or certain of the officials, to undertake to settle disputes, give advice as to the relative rights

of parties to policy contracts, and many other gratuitous offices relative to insurance. I also found that it was a great temptation to hear but the statement of one of the parties, as it was so much easier to reach a conclusion than to be at the trouble and time to hear the other contending party. Every Insurance Department which assumes to maintain a Complaint Bureau, I submit, should be carefully circumscribed and very prudently exercised. Its functions should be limited, first, to endeavor to bring together the disputing parties and assist in effecting a settlement satisfactory to both. Certainly no valid objection can be made to a procedure of this kind. Second, the functions of a Complaint Department should be limited to seeking, as far as possible, to determine the justice of every claim presented, modifying, as far as possible, the rigor of any conditions or limitations in any insurance contract, construing liberally the provisions of contracts if the same are in any wise ambiguous or harsh, and the construction questionable. This does not mean that the Commissioner or Superintendent, or official shall regard the company as engaged in dealing with infants, or persons non compos, nor shall they regard the insured as a ward in chancery and entitled to the peculiar protection of the Insurance Department.

In the Ohio Department it is ascertained that there is an average of at least six claims per day presented. Of these, 90% grow out of casualty companies. The result of the investigations of these claims indicates that the insured has been misled by the agent writing the policy, or the insured, through ignorance, has been induced to accept a contract which was of no advantage to him whatever, and afforded him no protection, and that he has been guilty of such gross carelessness in not reading his contract or making inquiry as to the terms of the insurance he was buying and in some degree learning what the company was obligating itself in its policy. Until there are standard provisions for Health and Accident Companies, and the elimination of policies which are devised merely for sale without any liability attaching, and until a rigid agent's qualification law is enacted and vigorously enforced, each Department of Insurance is justified in providing itself with a Complaint Bureau, and until there are such laws it will be one of the functions of Insurance Departments to promote and keep in full operation a Complaint Department to meet the necessary emergencies growing out of this class of insurance in conjunction with claims which may arise out of other classes of insurance.

An Insurance Department, through this Complaint Bureau, may well assume a third function—that is, to ascertain whether either party prevents a determination of the rights of the other under the policy contract, or encourages delays and interposes unconscionable grounds of settlement or defenses so as to indicate that it is a company or a person that ought to be closely scrutinized and is entitled to careful watching. Obnoxious practices may originate from some subordinate and if this fact is ascertained, he can be induced by moral suasion to cease exercising these improper practices. The company, when an unconscionable construction of a policy is brought to its attention, may also by moral suasion be caused to remedy the defect or to change its attitude in respect to its own contracts.

A circumstance illustrating the above came under the observation of the Deputy of the Department of Ohio. The claimant wrote the department stating that he had carried a Health and Accident policy for over 12 years and that the company had just advised him that he had passed the age limit and could not receive any sick benefit in case of illness. He found in looking over his policy that

the age limit was given as sixty years, and as he was sixty-seven years old, he came to the conclusion that he had had no insurance for over seven years, although he had paid his premiums during all that period. The department wrote the company, taking the position that the premiums paid after he had reached the age of sixty years should be refunded, on the ground that there was a clause in the policy which read as follows: "This policy shall not extend to or cover any person under the age of eighteen years or over sixty years." The company contended that it was the intention of the company that this clause should regulate the issuance of the policy, and not the continuance of it. They stated that it might be that the intent was not clearly expressed in the policy, but, irrespective of the policy, there was this fact: that whatever this clause did mean, the company waived it, and that this latter fact was determinative of Mr. _____'s rights in the premises. In answer to this, the department held that if it was the company's intention that this clause should regulate the issuance of the policy and not the continuance of it, the clause should have read "said policy shall not be issued to any person, etc.," instead of "extend to or cover." It was further held that if the age limit were waived, there should have been a record of such waiver, either by a letter from the company or in the form of a rider. The department notified the company that if it intended to maintain the position it had taken in this case, it would be required to notify the holders of all policies of this character then in force in Ohio of its waiver of this clause, so that there would be no misunderstandings in the future. Finally a satisfactory settlement was effected. The Insurance Department may also lend its good offices to assist in defeating fake claimants by giving information of the operation of such impostors.

Another function that might well be exercised by Complaint Departments is the procurement of facts relative to claims that are filed with the department. In many instances the facts are in a large measure in possession of one of the contracting parties. The company may be in possession of many material facts which the assured is entitled to know in order that he may fairly determine whether the settlement offered is fair and equitable or not. The assured may be in possession of facts which the insurer should know before concluding an adjustment. The ancient remedy of a bill in discovery as known and practiced in legal procedure, while in many instances affording a remedy, is cumbrous and tardy in its operation.

A company that has a valid defense need not hesitate to make complete disclosure of any and all facts within its possession, and the insured who seeks to suppress or withhold certain facts discredits his cause from the moment of such refusal.

The successful operation of a Complaint Bureau will depend upon the moderation and wisdom of the official to whom is committed the task of receiving, investigating and deciding the merits of the claims presented. Its functions should not be extended to attempting to oust the courts of their jurisdiction, depriving the parties of their constitutional rights of a day in court, or of substituting the uncertain judgment of an individual for the laws of the State, but should at all times be exercised with great caution and prudence.

"ANTI-DISCRIMINATION LAWS IN FIRE INSURANCE."

By George M. La Monte, Commissioner of Insurance of New Jersey.

I do not understand the system by which the program for this Convention was arranged. The only knowledge I have received indicating that I was to read a paper is contained in the program mailed to me by Mr. McMaster, in which appears: "'Anti-Discrimination Laws in Fire Insurance,' by George M. La Monte, New Jersey," and at about the same time I received numerous polite letters from insurance papers asking for advance copies of my address. This method, by its lack of some of the usual formalities, has the advantage, in that it fails to provide any method of escape.

Most of you are probably aware that the Legislature of the State of New Jersey, in the winter of 1913, passed a short Act, which has come to be known as the Anti-Discrimination Insurance Act. In the earlier days it was frequently referred to as the "rate-making law," but anti-discrimination is a fairer title.

The session of 1913 was somewhat noted, because it was at this time that the Seven Sisters, or Anti-Trust laws of New Jersey were placed upon the statute books (while Governor Wilson was still the Governor), and when this insurance bill appeared there were a good many people who asked how such a bill could be passed by the same members who were against trust legislation, because it appeared to many to favor monopoly. I admit that at the time I was somewhat fearful as to the result of the passage of such an Act, and I asked the Attorney-General of the State for a written opinion; the conclusion of which was that this Act did not wipe out the effect of the decision of the Court of Errors and Appeals which had been given against the Newark Fire Insurance Exchange, which was dissolved as being monopolistic.

The New Jersey Act provides that insurance companies, with certain exceptions which are noted in the latter part of the Act, shall file basis schedules embodying basis rates, charges, credits, terms, conditions, permits, standards and other data necessary to the computation of equitable rates and rules of practice for such insurance with the Commissioner of Banking and Insurance within three months after the Act went into effect, or with the amendments to such general basis schedules which may be filed with the Commissioner from time to time thereafter. It also provides that any one or more of such insurers, singly or jointly, may employ for the making of such general basis schedules and rates and the filing of the same, the services of such experts as it, or they, may deem advisable for such purpose. It provides that the same essential rates prevail throughout the State; it provides for a hearing of any insured who is dissatisfied with the rate, for he can make application for a change in such rate, and when it appears to the Commissioner that any such rate or general basis schedule discriminates unfairly between risks of essentially the same hazard, the discrimination must be removed or such rate corrected in accordance with the basis schedule. Discrimination cannot be removed by increasing the rate on any risk unless it is made to appear, to the satisfaction of the Commissioner, that such increase is justifiable. Of course, the Act contains a penalty clause for violation.

This law did not emanate from the department; and, in fact, the department anticipated that there would be considerable friction in enforcing the same and that there would undoubtedly be many complaints.

I presume it is a fair statement to say that insurance differs from other commodities, in that it is a necessity for every one possessing

property to carry insurance; and, therefore, a uniform rate is of extreme importance, and discrimination in rates is most unfair. As the department was not and is not in possession of data to enable it to adequately judge of the fairness and justice of the filed rates it immediately asked the Legislature for an appropriation to enable it to employ extra clerks and insurance experts, if necessary, to begin the compilation of data and information.

Now the practical workings of the law have been so satisfactory that the fears of the Commissioner that it might not work well have been unfounded. Charges of discrimination have practically ceased. The average rate of insurance in the State of New Jersey has been slightly reduced, and the insurers apparently feel that they are getting a square deal, because, while there have been minor complaints which resulted in correspondence between the insurer, the department, the experts and the companies, we have never had, in the three years the law has been on the books, a formal complaint which necessitated a hearing and the taking of evidence and a final determination of the fairness of the rate, or whether discrimination had been attempted or not.

We have not required, up to the present time, the services of an expert, nor has it been necessary for us to begin the formation of a rating bureau to take up the rates filed. Money appropriated from the Legislature for this purpose from year to year has not been expended.

Some of the insurance companies which informed us in the beginning that their business would be ruined by the necessity of conforming with the filed rates have apparently not had their fears realized, and those particular companies appear now to be favorable to the continuation of the Act. Of course, every winter there is some hue and cry about insurance matters; some talk of repealing the Act, some demands for investigation of insurance conditions (more of such last winter than in the previous year), but there has been no realization of any concentrated demand for the repeal of the law. Some rates have, of course, been raised and some have been lowered. This is necessarily so because, up to the time of the passage of this Act, there had been discriminations, and some people were getting insurance for less than it was worth and others were paying for it.

If the State were to make rates it would be an expensive proposition to start with, because, as I have already pointed out, the State has not the machinery or the information. If State rates were established, of course the companies would be obliged to insure at those rates. Now the burden and the expense of making a fair rate is placed upon the companies who are supposed to be experts in this business, and have a technical knowledge on which to base their conclusion or they hire experts at their own expense, and not at the expense of the State for this purpose. It would seem, then, that as far as monopoly is concerned, there would have been the same tendency from State rating as from rates filed by the companies, except that as to the present rates there is the chance of appeal to the Commissioner, with the chance of investigation and a correction of the rate.

I have sometimes thought that the law would be a better law if it went further and gave the department the right, upon complaint and investigation, to order the reduction of a filed rate. This power might not be exercised, but it would be "the stick behind the door," and it might have a tendency to keep in check the companies or the experts should insurers complain that the rates were exorbitant. Of course, there is a clause in the bill which provides that if dis-

crimination is proved, it must be removed by accepting the lower rate, and not by bringing the lower rate up to the higher, unless it is made to appear, to the satisfaction of the Commissioner, that such increase is justifiable.

In this paper or address I am not making any argument for the bill as it stands, but I am giving you the experience of the department under the Act, and so far it has been satisfactory. There has been less complaint than ever before within my knowledge; the average rate has been reduced; the insured apparently feel that their rights are protected, because there is no longer any evident discrimination; and the companies feel that they are no longer subjected to unfair competition. They compete, but not as heretofore upon the merits of their companies, they do not all employ the same expert, and up-to-date and aggressive agents are able to show their clients how, by making certain improvements and by reducing the fire hazards, they can obtain lower rates in accordance with the filed schedules. In this way the public is being educated to a higher standard of protection, and the fire risk appears to be actually lessened because of greater care and because of added improvements in the risks.

It is only fair to say that the experts who have filed rates have been willing from time to time to take suggestions from the department and made investigations and alterations of rates upon such suggestions without the necessity of formal complaints being lodged.

In my report for the year ending December 31, 1913, I said:

"Although the law has been in operation less than one year, there is ample evidence that it has been of advantage to the insuring public, and it seems safe to say that as time goes on it will be found that it will do much to improve insurance conditions in the State, and be a benefit, both to the public and the companies. In any event, it certainly seems that there is sufficient merit in the Act to permit it to remain unchanged until it has been given a fair trial."

and later experience has confirmed the opinion then expressed.

WELFARE (SOCIAL) INSURANCE—TO WHAT EXTENT IS IT DESIRABLE AND FEASIBLE IN THE UNITED STATES AND BY WHAT MEANS CAN IT BE ACCOMPLISHED?

By Rufus M. Potts, Insurance Superintendent, State of Illinois.

Being chairman of your committee on Social Insurance, and also by reason of the inherent importance of the subject itself, I have become greatly interested in universal insurance for the purpose of making secure the economic welfare of every worker and citizen of the United States. I believe it to be the most weighty problem of our time. I think that we can most readily obtain a correct understanding of the subject by considering very briefly its origin and growth.

In Germany, beginning about 1870, there grew up a movement for insurance by the government, of workingmen against accidents and sickness, and of their families against results of premature death. There had previously been in Germany and in other countries, voluntary associations for these purposes, but for various reasons, the larger part of the working classes, comprising those who most needed such insurance, would or could not take advantage of

it, so that when accidents, sickness or premature death occurred, destitution resulted, which could only be relieved by charity. The result of the movement was that in 1883 a law was enacted in Germany providing a governmental system for insuring workmen against accident and sickness. The scope of the system has been much widened in later years in Germany, whose example has been followed to a varying extent by different European countries, England having enacted the most comprehensive system of such insurance in 1911.

Owing to the main purpose of this insurance, being the relief of workers, it was at first collectively called "workingman's insurance," or "industrial insurance." When the scope of this insurance was gradually widened with success, it became apparent that the terms "workingman's insurance" or "industrial insurance" were not appropriate, because such insurance was needed and used by many others than manual laborers, who are generally understood to be designated when the words workmen or industrial are used. Consequently, the name social insurance was proposed and has come into quite general use. It has, however, always been apparent, whenever this name was given attention, that it was inaccurate. The association of ideas causing its use is rather far-fetched; and it also has, for the general public, an erroneous association with the name of the political party called Socialists. The effect of the name social insurance tending to produce a hostile attitude in the minds of members of other political parties, is the same as if it were called Republican, Progressive, Democratic or Prohibition insurance. For these and other reasons, I believe it highly desirable to have a new collective name for these branches of insurance, and I have heretofore proposed "Welfare Insurance." This name is accurate, for it describes fully and correctly the aim of the kinds of insurance included, and does not have any prejudicial associations with the name of any political party. Welfare insurance, then, is the use of insurance principles and methods for the purpose of supplying pecuniary resources, necessary to maintain each citizen of the United States, in a state of well-being, throughout the various misfortunes and emergencies of life, which would otherwise destroy his well-being and cause in its place destitution and suffering.

I believe that the substitution of "welfare insurance" as the collective name for the branches of insurance commonly included under the term social insurance, would aid greatly in securing full and impartial consideration of the included branches of insurance, as effective methods, for making provision against the pecuniary effect of the calamities and disasters which are liable to befall all human beings. The adoption of this name will free the subject from embarrassing associations and prejudicial implications and leave it free for a full, frank and impartial discussion on its merits, from which alone a correct determination can be reached as to its desirability and feasibility in the United States.

We have seen that the purpose of welfare insurance is the creation of a fund to provide the means to maintain the well-being of each productive member of the community and his family, in spite of misfortune and disaster. There are many kinds of misfortunes which destroy the well-being of the individual, but the varieties of insurance needed to counteract the effects of calamities, can be grouped into a few general classes, such as accident insurance, sickness insurance, life insurance, maternity insurance, unemployment insurance and old age annuities. It is wholly unnecessary to give detailed definitions of these different branches of insurance,

because they are familiar to and well understood by all members of this Convention.

The first question which presents itself in connection with my subject is: "What need is there for welfare insurance in the United States at the present time?"

I am not one of those pessimistic souls who believe that the world is on the down-grade, headed for some terrible disaster; that the conditions of the people are getting worse and worse, so that life will soon be intolerable. On the contrary, I believe that the world is progressing upward toward a better day, although not so rapidly as we might wish; that the living conditions and the welfare of the masses of the population of the world is higher than ever before in its history, and that among the nations of the world the people of the United States are the most prosperous and enjoy more favorable conditions than in any other nation. At the present time, in all civilized nations, excluding, of course, the terrible effects of the great war now raging, the life of the individual is safer and food and clothing are more abundant than ever before. Many of the great infectious and contagious diseases have been almost entirely eliminated, and others are partially curbed, so that the average length of human life has been greatly increased. Education is free and universal; opportunity for recreation and travel are available to greater numbers than ever before, and there are many pleasures and even luxuries within the reach of common people which were unattainable by the kings and nobility of former ages.

In spite of all this, however, there unhappily prevails throughout every country of the civilized world an entirely unnecessary and unjustifiable degree of poverty and the bitter suffering which results therefrom, and this is true even in the United States. The estimates of the actual number of persons affected by poverty in the United States, range all the way from one to ten million. This wide difference is due to the fact that little or no attention has been paid to the collection of such statistics in the United States, and also to the fact that the estimates were made by persons having divergent sympathies and holding different definitions of poverty.

There are two main causes of this poverty. First, the results of idleness, drunkenness, vice, and other improvident or evil conduct of the individual himself. These are personal causes and cannot be eliminated by any system of insurance. The poverty resulting therefrom can only be relieved by personal reform from religious teachings or other means of regenerating the fallen. Indiscriminate financial aid from any source to those whose poverty arises from these personal causes will only perpetuate and increase such poverty.

Another variety of the personal causes of poverty is lack of education and particularly want of proper training and preparation for earning a livelihood. This, in a large measure, is due to the absurd and imperfect school system in the United States, and can be remedied whenever those in charge of our educational institutions cease stuffing the helpless pupils in our common and high schools with dead languages, abstract knowledge and similar intellectual trash, and educate them how to live rightly, and in ways and means of earning a livelihood.

The second main cause of poverty is calamities which occur without the personal fault of the sufferer, such as accident, sickness, premature death of the breadwinner, involuntary unemployment, and old age. The bitter sea of poverty which submerges millions of our people is largely fed from these nonpersonal sources.

An examination of the great amount of discussion concerning the desirability of the different branches of welfare insurance shows

that most of the dispute has arisen because there has been an unconscious confusion of these two main causes of poverty. On the one hand, we have those who, being strongly impressed with the importance of the effects of personal causes, believe that there is little poverty excepting that which arises from willful idleness, drunkenness, immorality and vices of the worker, and that, therefore, insurance to relieve such poverty is unjustifiable. On the other hand, there are many well-meaning but sentimental social students who are so affected whenever they see any suffering that they jump at the conclusion that it is all unavoidable and should be relieved by insurance so generous as to afford instant and ample relief to every sufferer. It will be found, I believe, after careful survey of the whole field, that both classes of causes contribute heavily to the sum total of poverty, and that neither can be left out of account in working out a plan for relief, but that careful attention must be given to the devising of such a well-guarded plan that the benefits of insurance will only be granted to those whose poverty is not the result of personal faults and vices. Any plan which places a premium on idleness, immorality and vice, by giving sufferers from these causes the same relief as is extended to the sufferers from unavoidable misfortune, will become repugnant to the conscience of the community, because it will amount to taking from the thrifty and hard working a part of the earnings of their labor and prudence, and using it for the support of the idle, improvident and vicious. No greater moral or social wrong could be committed than this, and such misuse must be most carefully guarded against.

The existence in our times of accidents, sickness, involuntary unemployment, old age and premature death as prolific sources of suffering, will, of course, be admitted by every one, but it requires statistics to afford a realization of the enormous number of people actually affected every year.

According to the best estimate made by the United States Bureau of Labor Statistics, there occur annually in the United States about 82,520 deaths from industrial accidents, that is, accidents received in the course of the workers' occupation. Using the carefully kept accident statistics of the State of Illinois as a basis, we are able to make the trustworthy estimate of 208,000 nonfatal industrial accidents annually in the United States, each sufficiently severe to cause more than seven days' loss of time. On the same basis, it is estimated that the total number of nonfatal accidents, both industrial and nonindustrial, annually in the United States of equal severity would be 687,000. These estimates are confirmed by the statistics regarding accidents in Germany, Russia and Italy, and are very conservative. The actual number of fatal and nonfatal accidents actually occurring in the United States very probably considerably exceeds the totals I have just given, which, however, are sufficient to convince any one that from accidents alone there must result an immense amount of destitution and suffering, and, further, that some method is urgently needed to furnish relief from the economic results of accidents in the United States at the present time.

Great, however, as is the total number of accidents and widespread as is the suffering resulting therefrom, these are far exceeded by sickness. Complete statistics concerning sickness have never been collected for the whole United States, but it is possible to make trustworthy estimates on the basis of other carefully kept statistics. These show that there must be in the United States over 3,000,000 persons seriously ill all of the time, of whom 1,200,000 are

men and women between 25 and 65 years of age, the working period of life.

There were in the United States, according to the census of 1910, 33,500,000 people who were engaged in remunerative work. Making an estimate from all available statistics, including those kept in Germany, it appears that there are probably, among the working people of the United States, 13,400,000 cases of sickness annually, entailing a total loss of time of 284,750,000 days. The losses in wages, placing the average at the low figure of \$2 a day, and omitting Sundays, would be \$488,142,852. These enormous totals show what immense economic disturbances and financial waste from loss of time alone is inflicted by sickness. This necessarily causes an incalculable amount of destitution and misery from lack of necessities of life, aside from the terrible direct physical suffering from disease. In addition to all this, sickness compels the expenditure of immense sums for physicians, medicines and hospital bills.

Accidents and sickness do not, however, by any means exhaust the human contingencies which cause destitution and poverty, and consequent suffering. If the father or other breadwinner of the family is prematurely stricken down by death, the family, in a great majority of cases, will suffer from poverty. It is not commonly realized what immense numbers annually are exposed to suffering from this cause. In the census year of 1910 the total number of persons in the United States between the ages of 15 and 65 was 58,354,551, of which 33,500,000 were workers. Assuming that the same proportion of deaths occurred among the workers as among the general population between the ages of 15 and 65, then the number of premature deaths, which occurred in that year among the workers at various ages was 608,000, the details being as shown in the following table:

Ages.	Deaths.	Ages.	Deaths.
15 to 19.....	33,396	40 to 44.....	66,657
20 to 24.....	50,247	45 to 49.....	64,559
25 to 29.....	54,519	50 to 54.....	73,432
30 to 34.....	54,358	55 to 59.....	73,673
35 to 39.....	61,000	60 to 64.....	81,398
Total.....	253,520	Total.....	354,719
Grand Total.....			608,239

Let us assume that there were dependent families left in one-half of these premature deaths, and that two-thirds of these families were left entirely unprovided for by the death of the worker, then there would be 202,000 dependent families left unprovided for annually. This alone is an immense and urgent problem worthy the earnest attention of every humane and patriotic person. But this is not all.

A man and his family may be entirely exempted from the effects of accident, sickness, or premature death, but if the breadwinner is not able to obtain work, destitution will certainly afflict that man and his family, unless some provision is made against it. There are practically no general statistics regarding unemployment in the United States. As a matter of fact, it is a thing which varies widely from year to year. At some periods, as is fortunately true at the present time, there is practically no involuntary unemployment, because every man willing to work can get work. But we all know that there are constantly recurring periods of industrial stagnation called "hard times," when there are hundreds of thousands, and perhaps millions of men willing and able to work, but not able to

secure employment. A man is not like a steam engine, which, when unemployed, can be allowed to grow cold and stand idle without expense until work comes again, but constant supplies of food, clothing and other necessities of life are required. If the human machine once stops and grows cold, it can never be started again. Consequently, unemployment is also a thing which must be taken into account in providing for the welfare of the people.

There is another feature which must be remembered whenever we consider poverty and the means necessary for its relief. This is that owing to the immense industrial development which has occurred in all civilized countries in the last century, the like of which never occurred before in the history of the world, and also of the consequent unprecedented increase in the populations of the civilized countries of the world, the power of misfortune and disasters of various kinds to immediately produce suffering, has been greatly increased.

The industrial revolution has separated more than half of the workers of the world from the soil, and has crowded them into industrial towns and cities, where, when any interruption of employment comes, want and suffering begin immediately, because all food is brought from a distance and must be purchased at high prices. In the times preceding the industrial revolution, when the great masses of the population lived directly on the land and were engaged in agriculture, although the general welfare was not as high, still actual suffering for food did not begin as quickly upon the occurrence of misfortune, because there was nearly always some store of food on hand or relatives and neighbors could and would furnish it. Moreover, the standard of living of the masses was not so high, so that if calamity interrupted their means of support, their downfall was not as quick or disastrous as at the present time.

The frequency, also, of the occurrence of catastrophes which interrupt the welfare of workers, has probably increased in modern times from several causes. The innumerable, powerful machines in use render accident from that cause much more common. The enormous and widespread industrial operations, with the use of explosives, such as mining, railroad construction and the erection of high buildings, also result in more numerous and destructive accidents. In short, the immensely increased complexity and extent of the modern industrial organization inevitably bring about an increased proportion of accidents. Liability to periods of unemployment is also increased by this complexity. We see then that unfortunately modern progress has not done away with; has not diminished, but, on the contrary, has relatively increased the destitution and suffering of those afflicted by unavoidable misfortune.

Naturally the next question then is: "What is the best way of relieving this suffering?"

In former ages the only method was neighborly assistance and wider general charity, frequently through the church. These still have their field of great usefulness today, but are entirely insufficient to adequately care for all such suffering. The only other method of relief that has been discovered, that I have any knowledge of, is through insurance methods.

Successful insurance against the effect of uncertain contingencies rests on a certain fundamental fact, which was disclosed only after knowledge had accumulated, so that a record of the living experiences of large numbers of individual men, under the conditions prevailing in civilized communities had been made, thus permitting a comparison of these experiences. When this was done it was found, although the occurrence of disasters and misfortunes was

very uncertain in relation to any particular individual, that, in relation to the total population of any country of sufficient size, their occurrence was approximately constant and regular. Some of these were certain to happen to somebody, and, taking considerable periods of time, approximately the same number would occur in each period. Consequently, if all persons, subject to a certain contingency, contribute a small sum according to the average frequency of such contingency, to a fund held by a trustee and used for the purpose of reimbursing the pecuniary losses of those to whom the contingency occurs, we have a financially practicable method of securing the money needed for relieving all the victims of that kind of misfortune among the contributors to the fund.

It is on this very simple basis that the vast structure of modern insurance has been erected. Its development has been possible only through the gradual accumulation of the experience of millions of men in relation to many different kinds of calamities. The final result is that insurance against occurrences very uncertain from the standpoint of any one individual can be carried on as a business enterprise of stability and financial soundness, so that insurance has become one of the most reliable and profitable of all modern business enterprises.

We see, then, that in insurance we have an available and adequate method for relieving the widespread suffering and poverty from the economic effects of unavoidable accidents, sickness, unemployment, and other misfortunes.

A knowledge of the existence of this suffering is, however, no new thing, nor is insurance a recent invention. Its beginning dates back several centuries, and it has been in widespread use in all civilized countries for a large part of the past century, but, nevertheless, suffering continues. Consequently, the mere existence of systems of insurance is not sufficient, and something more than present methods are necessary before the desired result—the complete relief of undeserved suffering—can be accomplished in the United States.

I do not think it will require any extended argument to convince this audience that the systems of accident, sickness and life insurance now in operation are wholly inadequate, and reach only a small portion of the total population of the United States. The chief reasons why these do not reach all those needing insurance are as follows:

- (1) The enormous expense of conducting the business, which added to the large amount actually required to be collected to make up the fund to indemnify the losses resulting from the contingencies insured against, makes the total cost prohibitive to the larger part of our citizens, particularly wageworkers.

- (2) The lack of foresight and improvidence of many, which leads them to spend all the money they earn for the satisfaction of immediate desires and fancies. There may be other drawbacks, but these are of controlling importance in most cases.

What is needed is a plan which will meet both of these difficulties. Anything less will be incomplete and unsatisfactory.

This brings me to the consideration of the desirability and feasibility of extending welfare insurance until it is universal, for the purpose of affording complete relief to all victims of unavoidable misfortune and their families.

It does not seem to me that there should be any difference of opinion among humane men concerning its desirability. Charity for this purpose is both inadequate and detrimental. Unless suffering from hunger and cold, and unless lack of all pleasures and comforts of life are good and beneficial to the unfortunate, then the

only plan which holds out any promise of preventing such wants and distress is surely desirable.

No welfare insurance funds should be wasted on those whose destitution is the result of their own vices and improvidence. Aid to such only encourages the repetition of the evil conduct. For the vicious and improvident, the only course that will at the same time protect society and bring about reform of the offender, is to allow him to suffer the full consequences of his acts, with only such exceptions as the best interests of society may demand. Toward those, however, who are honest workers, and who make a sincere effort to support themselves and families, but who are overtaken by unavoidable misfortune, justice and humanity require an entirely different attitude.

The next question is: "Is universal welfare insurance feasible—that is, practicable—in the United States?"

That the **theory** of welfare insurance is sound and its operation practicable, is proven by the fact that it has been and is in extensive use not only in many other nations, but also in the United States. The existing systems of accident, sickness, and life insurance in the United States are all welfare insurance. Their successful operation under very unfavorable conditions proves conclusively that **some** welfare insurance is feasible.

But is **universal** welfare insurance feasible?

There is absolutely no reason why, if partial use is practicable, that universal use will not be also, if the cost can be reduced to the point where every person can pay the necessary premiums and means of compulsion are available to make all those do so who are too improvident or obstinate to do so voluntarily. Those not able to work should be provided for by charitable methods, and those not willing to work, when they are able to do so, which comprises the great army of able-bodied beggars, tramps, criminals and prostitutes, should be placed and kept in farm colonies, workhouses or penal institutions, according to their character, and there compelled to work at least enough to produce what is needed to sustain their useless existence.

This brings us to the final part of my subject—How can welfare insurance be best carried on?

I have, I believe, considered and weighed every plan and suggestion that has been made in this connection, and I am obliged to say that so far, I have only found one plan which holds out substantial promise of accomplishing the desired purposes. This is the carrying on of a comprehensive system of compulsory welfare insurance, in all of its branches, by the National Government. While, of course, some reduction of the expense of conducting the insurance business under existing systems might be brought about by economy and efficiency, still, with the excessive acquisition and administration costs, by reason of high salaried officials and a great army of middlemen, the cost will always be exorbitant. A compulsory system of welfare insurance, carried on by the National Government, will not only reduce the expense of operation to a minimum, so low that it will be negligible, but will render it feasible and proper for the nation to contribute, in behalf of those earning low wages, a part of the dues found necessary on actuarial calculations, to pay for complete welfare insurance. Above all, only by a national system can the compulsion be employed necessary to force the improvident and obstinate to make provision for their families and themselves when overtaken by misfortune. The insurance of all the workers of the United States would include such enormous numbers that an almost unvarying law of average would result, which would render the business as stable and certain as

agriculture. The nation would be entirely justified in paying the expense of conducting the business and of making such contributions of a part of the premiums should same be found necessary, in case of those receiving a low income, because of the increase of production through greater individual and industrial efficiency, and also because it would greatly diminish the necessity for charitable relief.

There would also be the same justification for the expenditure of funds raised by taxation for this purpose, as for spending such funds to support the Department of Agriculture, the Fisheries Bureau, the Mining and the Geological Bureaus and the maintenance of lighthouses and making of harbor and waterways improvements. They all contribute to the general welfare of the people of the United States which justifies their existence.

It is admitted that the compulsory element of a welfare insurance system implies that there is a considerable proportion of the people who do not have sufficient self-control, foresight and thrift to voluntarily take advantage of the benefits of welfare insurance, even when the plan includes contributions from employers and subsidies from the government. This is unfortunate and discreditable, but is an unalterable fact of human nature which must be taken into account in considering social plans, because in modern times, even the thriftless and reckless cannot be abandoned to perish by starvation and disease, when unable to earn their own support. Therefore, compulsion should be applied to the thriftless to force them, at least, to assist in making provisions for the emergencies which will certainly later occur to many of them.

It is coming to be generally admitted by those most competent to judge, that for any branch of welfare insurance, to even approximately fulfill its purpose, by furnishing protection to the classes most needing the same, that it must be made compulsory on all who cannot furnish proof that they have otherwise made provision for their dependents and themselves against all the emergencies which bring disaster to those without means.

While an essential feature is that welfare insurance be compulsory, this need not mean that a man would be required to insure with the National Insurance Office if he could show that he had in some other way made secure provision for himself and family. This might be either by insuring in a reliable and approved insurance corporation, or mutual association, or by the possession of sufficient property for that purpose. In the latter case there should be some provision by which sufficient property, either real or personal, would be required to be set aside for this purpose similar to a homestead, so that it could not thereafter be alienated or divested by judgment or otherwise, unless other property was dedicated to the same purpose in amount sufficient to afford protection to the individual and his dependents equal to a certain minimum of insurance.

In this connection I desire to briefly call attention to the little understood, but extraordinary results, which can be obtained in the way of old age annuities through the payment by the individual himself of comparatively small sums of money early in life, provided an absolutely secure and inexpensive institution is available to receive, care for and disburse the funds. This arises from the remarkable accumulations effected by compound interest in connection with the lapse of a great number of years.

There are two plans for such self-provided old age annuities. One is the "reserve-capital plan," in which, if the person dies before the date at which the old age annuity would begin, his heirs receive back the money which he has paid. The other is the "alienated-

capital plan," in which no money is returned excepting to those persons who attain the given age. For example, on the "alienated-capital plan," one payment of \$100 at 20 years of age will secure an annual pension of \$97.27 for life after 65 years of age, while on the "reserve-capital plan," one payment of \$100 at 20 years of age will secure an annual pension of \$70.58 for life after 65 years of age. In the latter case, if the person making the payment dies before attaining such age, the payment he has made will be returned to his heirs.

If a parent wishes to provide for the old age of his children, still more remarkable results can be obtained. One payment of \$100 at 3 years of age will provide each year for life, after attaining the age of 65 years, \$190.32 on the "alienated-capital plan," or \$152.92 on the "reserve-capital plan."

There is no excuse for every able-bodied man not making provision for his old age, and if married, for that of his wife, in this way, except ignorance or lack of an absolutely secure institution for that purpose. There are practically no able-bodied wage earners who, before marriage at least, do not waste a sufficient sum every year, which in one year alone, if paid for such annuities, would provide an annuity for the worker's entire old age.

A general system of welfare insurance would furnish the absolutely secure institution for receiving the initial deposits and paying out, when the time came, these old age annuities, and hence, any able-bodied man who had knowledge of the extraordinary results of such a plan of providing old age pensions and the opportunity of making such provisions by reason of the existence of a secure institution for that purpose, but, nevertheless, failed to do so, would have absolutely no right to complain if compulsion forced him to make such provision.

While compulsion in general is somewhat objectionable to Americans, but it cannot in any sense be as objectionable as the suffering which results from improvidence, and there should not be any reluctance to apply compulsion to those so reckless, ungrateful and improvident as not to take advantage of either a reasonable amount of insurance in an expense-free government system, or too thriftless to accumulate enough property for protection against accident, sickness, old age, unemployment and premature death.

Compulsion is now used to enforce education, sanitation, fire prevention, food supervision, traffic regulation, and, in fact, obedience to all laws. Sentimental objections to the absolutely necessary compulsory feature should not be allowed to prevent the inestimable benefits of universal welfare insurance.

That a general system of successful welfare insurance is possible only when carried on by the nation, is, I believe, conclusively proven by the fact that in all nations where it is in operation, it is effected in this way. This is true of the almost complete systems now in operation in Germany and England, and also of the less complete systems of other European countries. This method has been adopted also in Australia, and in the States of Washington and Ohio in regard to workmen's compensation.

An objection certain to be loudly and insistently urged, is that a national system of welfare insurance would interfere with private business. When a private business which is for the purpose of supplying fundamental needs of the people has failed to perform its function at a reasonable cost, it then clearly becomes the duty of the government to assume the operation of such business. Temporarily some insurance middlemen may lose employment, but no man has a vested right to make an easy living by performing an unneeded function which increases the expense of a beneficent insti-

tution. By reason of the great extension of insurance to the whole people, which would occur by creation of a compulsory national system, employment will be given to many now employed under the private system who are skilled and capable, although, of course, there would be no \$25,000 to \$100,000 salaries paid to agents or officials as at present. The howl about welfare insurance interfering with private business comes from extravagantly paid men, who would be supplanted by government officials at moderate salaries, and stockholders who realize they could not get such enormous dividends on their investments in any other business.

A complete system of welfare insurance by bringing about, as it would, the collection of accurate and complete statistics concerning the occurrence and a study of the causes of accidents, sickness, involuntary unemployment and other destroyers of human welfare, would be an immense incentive to and aid toward preventive measures against all of these misfortunes. This has occurred in connection with accidents insured against by workmen's compensation which is one branch of welfare insurance.

Similar preventive benefits will occur in other branches of welfare insurance. The accumulation of knowledge concerning sickness, premature death, involuntary unemployment and similar causes of distress, would certainly result in better human conservation and social upbuilding through a nation-wide system of sickness prevention, the establishment of a complete national system of employment bureaus, and similar institutions for increasing human welfare. Mr. Miles M. Dawson, an experienced actuary, says that since the extensive social insurance system of Germany went into operation, the average length of life in that country has increased twelve years.

Welfare insurance is a plan whereby all, through the operation of the law of average help, without hardship, to bear the heavy burdens from misfortune that befall the few. The community at large, however, has not grasped the conception or realized the fact that it is possible, by means of a proper system of welfare insurance, to distribute the financial effects of all of the misfortunes which afflict humanity in such a way that they will be easily borne by all. What is needed is education of the whole people, until each citizen realizes its benefits and practicability.

Communists as well as extreme socialists, maintain that the present industrial and economic system is responsible for all poverty and destitution, and that if the existing system was destroyed and some plan of their own substituted, that all suffering from lack of means of livelihood would be forever banished from the world. Brief consideration, however, will show the falseness and absurdity of such a contention. As long as machinery is used, as long as sickness and disease have power over mankind, as long as liability to disablement in earlier years and certainly of incapacity to work in old age exists, no change, however radical, of our industrial system, or even the destruction of the entire system of private property for productive purposes, would prevent the effects of calamities from being heavy burdens for those numerous and unfortunate members of society who happen to be the victims upon which misfortune falls. Nothing short of the miraculous and universal interposition of Divine Power to render human nature perfect, to cause the operation of vast and complicated industrial enterprises with all attendant machinery to become absolutely free from danger, and also to prevent all disease, would be sufficient to avert the recurrence of these misfortunes day after day and year after year, as long as the troubled river of time flows into the sea of eternity. It is possible

that some of these misfortunes might be escaped by going back to the savage or barbarous stage of society in which, there being no machinery, there would be no industrial accidents; and where the unmitigated forces of nature would work such an elimination of the weak, that there would be little disease and where, because there was nothing to work for, unemployment would be without terror.

No sane man, however, expects that miracles will be wrought in this age, nor does he desire a return to the savage stage of society. On the other hand, he cannot reconcile himself and his ideas of justice to a continuation of present conditions in which, although it can be foreseen with absolute certainty that misfortune in various forms will inflict cruel suffering upon a considerable proportion of the community each year, no provision is made against the effects of such misfortune. A universal system of compulsory welfare insurance carried on by the people themselves, through their government, would furnish an equitable and financially practicable system which would at the same time prevent suffering from unavoidable misfortune and preserve the inestimable benefits of our present industrial and social system, while also permitting and favoring gradual changes of that system to adjust it to changing conditions brought about by constant progress.

We must never lose sight of the fact that the enormous modern increase in the complexity and scope of our industrial and social organization, have unhappily also increased the liability of many unfortunate members of the community to lose temporarily and even in a few cases permanently, the ability to secure food and other primary requisites of human welfare. This liability renders precarious the maintenance in reasonable comfort of human life, which is the fundamental aim of civilization. Visionary and irresponsible persons have seized on the distress and discontent which the existence of such conditions inevitably cause, as an opportunity to propagate doctrines which would mean the speedy disintegration and ultimate destruction of our wonderful modern civilization, which it has taken centuries to build up. They have secured some following and boast they will soon sweep the nation. Consequently, not only as a matter of humanity and justice, but also as a means of preserving our precious civilization and the hard-won liberties we enjoy in the United States, I urge you all to assist in removing all just cause of discontent by rendering the economic welfare of every honest worker, secure and stable, through universal welfare insurance. This will destroy the power of those demagogues and shirkers whose real motive is to get a chance to feed on the accumulated result of the labor and thrift of others, but who use as a pretext the large amount of otherwise unavoidable suffering growing out of the complexity and defects of modern industrial and social organizations.

HOW FAR SHOULD A LIFE INSURANCE COMPANY GO TOWARD CONSERVING THE LIVES OF ITS POLICYHOLDERS?

By E. R. Harper, Commissioner of Insurance, State of Colorado.

At this hour of the most intense industrial and commercial activity in the world's history, when the demand is greater than ever before for the highest efficiency, the word economics and that for which it stands, has become of the most vital importance.

Not only in the consideration and the solution of their own vast problems, but also in the important part they must play in the world's affairs, does it devolve upon the citizens of this country of

ours to become the most economically efficient, and every industry, every enterprise, every worth-while effort shall be judged upon that basis.

A mighty evolution, at times a virtual revolution, is going on in the industrial as well as the social world, and in the swift and grueling commercial race none need hope to successfully contend who carries excess weight, or dormant and useless muscles, because the immediate few years are to see the severest contest along that line ever witnessed by man, and we of America must be prepared in all that the word implies, prepared for the highest possible efficiency and the best possible service.

Fortunately that valuable lesson has been at least partly learned, and we have come to know that, fundamentally, underlying all else is the question of economy,—does it pay?

For centuries the American people labored and wrought in the most luxurious field of man's experience; the Almighty had opened wide the generous hand of plenty until we became the most prodigal of nations; spendthrifts of the highest magnitude, so far as concerned the utilization of nature's wealth.

Then came the hour of the new order and man began to realize that the by-product, when properly utilized, often became of more value than the main product. He found that waste must stop and that economy must be practiced.

Then came the question, "what is economy"? And it was discovered that the meaning of the term had changed, or, at least, become greatly modified, and that instead of it meaning retrenchment, the saving of dollars, it might also paradoxically mean expansion and the far greater expenditure of dollars. Why? Simply because in the vast average it was found to finally mean a far greater saving.

Insurance, in keeping with all other great financial factors, naturally partook of and became a part of the conditions of the times. It was no better or no worse, and never will be, although we hope it may be made the leader of all the other forces in the World's Commercial contest.

The time was when all that was expected or demanded of insurance was to meet the loss when the loss came, and to have no concern of the safety or welfare of the insured in the meantime. But now comes the question, "How Far Should a Life Insurance Company Go Toward Conserving the Lives of Its Policyholders?" What a startling question that would have been had one the courage to have pronounced it fifty or one hundred years ago. One is fully justified in smiling when he contemplates the answer. But now the question is not only proper,—it is almost imperative.

The industrial enterprise that but a few years ago gave no thought, much less expenditure of money, to the question of the welfare of its employees, today gives that important question virtually first thought. And what ambitious programmes are being carried out by so many of our commercial and industrial plants. The highest expert ability and vast means are being utilized along humanitarian and sociological lines,—a most startling and at the same time most interesting work. But why all this? Is it because the influence of social welfare controls? No! Is it because of the concern for the individual's welfare? I regret that I cannot give much credit to that worthy motive; No, by and large, it is because of the economical factor. It has been found to pay and pay most handsomely, and that is the final answer. In fact, in civic and social welfare work, in the matter of disease and kindred hindrance to community interests, the questions are weighed more than ever

with the thought of economy. Even the matter of temperance is rapidly getting beyond the question of morals, religion or sociology, and is becoming one of economics—and just as soon as it is found not to pay, just as soon as it is discovered that directly and indirectly it costs too much, then it will get its final call in State and nation—for no factor is powerful enough to withstand the mighty force of the onward march of Commercial and Industrial progress.

And so the hour of the country's,—yes, the world's greatest development comes, and with it comes the awakening call to Life Insurance. "Are you ready and properly equipped for the greatest commercial race of all time?" Yea, more, are you prepared to take your proper place and lead in that great contest? This is no idle call, no empty question, but one which must be heeded and answered and rightly answered.

It will not be enough for Insurance to say, "Oh, yes, I am ready just as I have been, equipped just as I was years ago." That will not do for the future contest. The demand for service is greater than ever before upon every dollar, every effort of man, and upon no one factor more than upon Life Insurance, and it must take the responsibility and fully qualify.

The foolish, useless time of throwing away of values has gone by, never to return, and the day of conservation is at hand, conservation of everything of value and worth while, and what is of more value than human life, especially when that life must not only be lost to the world's benefit, but must be paid for?

While quite a good deal has already been accomplished toward the conservation of policyholder's lives by some insurance companies, yet it is but a fair beginning of the great work. True, it has not been possible to determine as definitely as to the economic results in dollars and cents as it has been in industrial lines, yet, enough has been determined to clearly show that the work is in the right direction and must continue. The real purpose of Life Insurance ought to conserve life, and that not wholly for altruistic reasons.

If it is essential that before insuring the company shall determine that the applicant is in good health, then why is it not just as essential, yes, far more, that he be kept in good health after he is insured?

It calls for no argument to show that the lower the mortality the greater the returns to those interested, and the consequent lower cost of the insurance. Then why is it not a wise, economical act to expend means toward conserving life and thereby reducing mortality? When properly and efficiently applied, it will prove one of the most economical factors in the life insurance business. Moreover, it will have a most salutary effect on public sentiment and tend to largely increase confidence in the business, and I know of no one thing much more needed than increased confidence upon the part of the public in insurance.

Most earnest commendation is properly given fire insurance companies for their splendid efforts toward the reductions of fire loss and the consequent conservation of property, and no one thinks of questioning their right to expend large amounts in their campaigns against fire waste.

It is considered as best possible evidence of efficiency for casualty companies to secure the services of the best experts and expend freely in the work of preventing accidents.

Why do the fire and casualty companies carry out such campaigns? Not altogether for altruistic reasons, nor for social welfare reasons, but for the reason that it **pays**.

The same reasons hold good as regards life insurance, even to a greater degree, and the matter then narrows down to the more technical point of the question under consideration, "How Far Should a Life Insurance Company Go Toward Conserving the Lives of Its Policyholders?"

Considering it from every viewpoint, and thereby being firmly convinced that it is all essential that life conservation should be a factor, one is almost justified in saying, "Go the limit." In fact, if I were addressing those who could be expected to understand the meaning, I might say, "The roof is off, there is no limit." However, there is no need to go that strong, but to simply first determine that such work is necessary, its relative value, and then leave its accomplishment to the management, in association with other departments of administration.

No one questions the right, or even duty of an insurance company to advertise, to prevent lapses, or to employ proper legal services, and yet, no one expects a definite reply to the question, "How far should a company go in that direction?" It is very properly presumed that the management of a life insurance company, worthy that great responsibility, is competent to determine those questions, and equally so as regards the question under consideration. They should go just as far as its relative value to the business as a whole demands, and no uneasiness need be had that extravagance and unwise expenditure will prevail there more than in any other department.

However, it is such an ambitious undertaking, and of such far-reaching consequence that it will be somewhat difficult for many companies to do the work and do it as thoroughly as it should be done. The field enlarges so rapidly and the demands are so urgent that but comparatively few companies can handle it successfully. Consequently a way should be found whereby all companies and thereby all policyholders can be benefited. That can only be by a combination of all interested, in so far as that feature of the work goes. That is to say, the establishment of a general bureau, to the support and operation of which, each life company shall contribute in proportion to its interest, and that bureau to have complete control of the mighty work of life conservation.

It should, of course, work in harmony with national, State and municipal bodies of like nature, and properly operated would result, in a few brief years, in a gratifying increase in the length of life, with the consequent great economical saving in the earning power of the individual as well as a mighty reduction in the loss ratio with the relative saving in dollars.

With some such a programme life insurance will be ready to take its proper place in the front ranks of the great army of preparedness for the stupendous world contest of the immediate future, and render most efficiently the service for which it rightly exists.

Without it insurance cannot hope to take any worthy part in the all-inviting, all-important work of the morrow.

Another essential feature that should be considered in connection with this important matter is the tendency toward State insurance. That fallacious idea of some who seem to think that if the State does the insurance business they will likely get something for nothing. The national or State governments can never do business, industrial and commercial business, as efficiently and economically as can properly organized and conducted private organizations. But unless those private organizations meet the needs and reasonable demands of the people, the State will surely take up the work, however inefficiently. Consequently if the disastrous move of State

life insurance is to be headed off the companies must meet the demand for greater service along the lines of conservation of life.

When the great Life Conservation Bureau is thoroughly organized and at work I fear that just such efforts as this of mine will cause the establishment of a division of that bureau to be known as "Life Conservation Through Discouraging Long, Empty and Tiresome Addresses," and I am not so sure it will not fill a "long-felt want."

**AUTOMOBILE INSURANCE—SHOULD FIRE COMPANIES BE
AUTHORIZED TO GIVE FULL COVERAGE,
INCLUDING THE PERSON?**

**By Henry D. Appleton, Deputy Superintendent of Insurance, State
of New York.**

Mr. President, Members of the Convention and Guests:

The question of full automobile coverage, including injury to the person, was first brought to the attention of this body at the annual meeting held in the latter part of July, 1912, at Spokane, Washington, in a resolution introduced by the then Commissioner for Minnesota, Mr. Preus, reading as follows:

"Whereas, There is a constant demand for insurance contracts which will insure the owners of automobiles against all injuries to persons, automobiles or property incident to or resulting from the operation and ownership of automobiles;

Be it resolved, That this Convention, at its next adjourned meeting, consider the advisability of devising ways and means for the companies engaged in this line of insurance to issue such policies of insurance."

A reference to the printed Convention proceedings for the years 1913 and 1914 shows that Commissioner Preus' resolution was having consideration during that period by the Committee on Laws and Legislation. In the record of the December, 1914, meeting, held in New York City, as printed in the 1915 Proceedings, at page 33, appears the following:

"The Laws and Legislation Committee on Automobile Insurance reported as follows:

The following resolution, on motion of Mr. Mansfield, was adopted:

Be it resolved, That this committee recommend to the Convention that in those States where the issuance of such contracts is not permitted, the statutes be amended so that corporations authorized to insure against any loss by fire or against loss by legal liability for damage to property or bodily injury to the person resulting from the use and maintenance of automobiles, be permitted to issue a combination policy insuring against all of such hazards."

Notwithstanding the adoption of this resolution, it is quite apparent that there is no uniformity in the laws of the various States regarding automobile coverage and the right of a single corporation to give full coverage, including injury to the person.

After this subject was assigned by the Executive Committee, a circular letter was sent to the supervising official of every insurance department in this country. It contained a series of questions which it was hoped would result in the return of such specific information

as to make it possible to present to this convention an exact showing of the laws of the various States where there are specific laws relating to automobile coverage, and, in the event of there being no specific laws, the procedure followed by the particular State in its treatment of domestic and foreign corporations desirous of furnishing full automobile coverage, including injury to the person.

Apparently many of the States have no specific law on this question, department rulings governing—but owing to incompleteness in the answers to the questions contained in the circular letter, it has not been possible to develop some of the detailed data which otherwise would be presented at this time.

Returns have been received from 41 departments, from which has been compiled a table which is attached hereto and marked Exhibit "A."

It shows that in 21 States there may be organized domestic corporations having authority to furnish full automobile coverage, including injury to the person, and that in 18 States full coverage cannot be given by one domestic corporation. In two States companies may be organized only by special charter.

This table further shows that in 26 States foreign corporations may be authorized to furnish full automobile coverage, and that in 14 States foreign corporations cannot secure such authority. One State has not yet determined its attitude toward the admission of a foreign company to issue full coverage automobile insurance.

Of the 21 States whose statutes permit the formation of a domestic company which may issue a single policy giving full automobile coverage, including injury to the person, 4 of such States have limited the character of such company to a reciprocal, or to a company whose business shall consist solely of automobile insurance.

It is noteworthy that in the 17 States whose laws permit the formation of a stock fire or a stock casualty company which may issue full automobile coverage, but one such company has been formed, and in only two States (California and Minnesota) is there evidence that domestic fire insurance companies have taken advantage of the opportunity to extend their charter rights. In the case of the latter State (Minnesota), but one company is exercising the privilege, and, it is understood, in that case only to a limited degree. In other words, insurance companies domiciled in those States whose laws permit the assumption of power to write full automobile coverage, have been slow to take advantage of the opportunity.

There is an apparent tendency toward the formation of reciprocals, confining their business solely to insurance on automobiles, and there is one stock company, the American Automobile Insurance Company of St. Louis, which confines its business solely to insurance on automobiles and furnishes full coverage, including injury to the person.

In the admission of foreign companies there is a marked tendency to recognize any company whose charter is sufficiently broad to enable it to write full coverage automobile insurance. This tendency is not confined merely to those States whose laws explicitly extend this right, but it is also found in States whose laws contain no provision contrary to the admission of such corporations, the supervising official apparently taking the position that the absence of direct prohibition may be construed as tacit permission to admit these companies, and that he is justified in acting favorably on the broad ground of "comity between States."

That this line of business is assuming such magnitude as to make it desirable to secure uniform treatment is evidenced by the companies' returns to the New York Department for the past three

years. The figures submitted below represent only the fire and marine companies operating in New York State, and cover their total business in this line. It has not been possible to secure, with any degree of accuracy, such a showing for this class of companies which may be transacting automobile insurance, but are not licensed in New York.

Fire and Marine Companies.

Motor Vehicle Insurance.

	Premiums	Losses incurred
1913	\$2,268,439	\$978,731
1914	9,590,020	4,696,551
1915	12,247,622	5,753,877

Similar figures showing the exact amount of automobile business transacted by casualty companies are not available for the reason that in the statement blank the property damage business for automobiles is not separated from that of teams property damage; likewise the automobile liability figures are included with other liability figures. Inquiries made from several large domestic casualty companies indicate that, while no exact figures can be presented at this time concerning the automobile premium income, the volume of such premiums received by casualty companies probably equals, if it does not exceed, that of fire and marine companies.

It is hoped that the data submitted may be helpful in giving consideration to the question under discussion, viz.: Should fire companies have authority to write a full coverage automobile policy (including injury to the person)?

Inasmuch as many States have no specific law on the question under review, it has seemed desirable to embody herein specific references to the New York law, and in a measure to discuss the question on the basis of the New York law and its developments.

When Commissioner Preus introduced his resolution in 1912, heretofore referred to, he submitted a Memorandum in re Automobile Insurance, which was prepared by the New York Department. It is believed that for the purpose of record it is desirable to quote therefrom:

"The automobile branch of the insurance business is of comparatively recent growth. It is only a few years since it was recognized in the insurance law of New York State (Chapter 206, Laws of 1907, in effect September 1, 1907). Prior to that time there was no provision in the general casualty law recognizing automobile insurance, but the New York Department held that the term 'transportation,' as used in both Section 110 and 150, was sufficiently broad to enable the fire companies to assume a limited line of automobile insurance liability. Our department was compelled to hold, however, that a purely fire company could not write an automobile policy because it was controlled by the standard fire policy law (Section 121). We further held that the marine companies, not being required to write a standard policy, could adopt such a policy as they might desire to write in connection with automobile insurance.

The situation was met in the amendments of 1907 by the express authorization of automobile collision insurance. Section 70, as amended, expressly permits corporations insuring against health and accident, employers' liability and burglary to offer every requisite feature of automobile insurance (except insurance against loss by fire) in a single policy. Sections 110 and 150, as amended, author-

ized automobile liability insurance, but, because of a confusion in legislation that year, the law did not become applicable to fire companies. The following year Section 110 was again amended so as to extend this power to fire companies.

The situation as it now exists in the State of New York is substantially as follows:

The owner of an automobile can secure from a casualty company every kind of insurance he needs, except fire protection. He can secure from a fire or marine company every kind of protection he needs, except protection against damage to the person. Therefore, there is a certain amount of like power running into both classes of corporations.

The department is now confronted with this peculiar situation: A certain casualty company of another State (the Aetna Accident and Liability Company), by a recent amendment to its charter, has secured the following powers:

'9. May make insurance against loss of use and occupancy, against loss of profits, and against any other consequential loss resulting from destruction of or damage to property by fire, water, explosion or other calamity.'

This company construes the words 'consequential loss' as permitting it to write a policy under the terms of which the automobile being destroyed by fire the value of the automobile may be paid; or, if the automobile is not totally destroyed by fire, but is capable of repair, the loss to which the owner is subjected by reason of his inability to use the car, or the hire of another car, may be paid to the insured. This in itself is so closely akin to fire insurance that one has great difficulty in drawing any distinction therefrom."

The express language contained in Sections 110 (fire) and 150 (marine) of the New York law, with reference to automobile coverage, is as follows:

"Insurances upon automobiles, whether stationary or being operated under their own power, which shall include all or any of the hazards of fire, explosion, transportation, collision, loss by legal liability for damage to property resulting from the maintenance and use of automobiles, and loss by burglary or theft or both, but shall not include insurances against loss by reason of bodily injury to the person."

The express language contained in Section 70 of the New York casualty law with reference to automobile coverage is contained in subdivision 2, part (a) of subdivision 3, and subdivisions 5 and 9, which read as follows:

"2. Against injury, disablement or death resulting from traveling or general accident, and against disablement resulting from sickness, and every insurance appertaining thereto."

"3. Insuring any one (a) against loss or damage resulting from accident to or injury suffered by an employee or other person, and for which the person insured is liable."

"5. Against loss by burglary, theft or forgery or any one or more of such hazards."

"9. Against loss or damage to automobiles (except loss or damage by fire, or while being transported in any conveyance by land or water), including loss by legal liability for damage to property resulting from the maintenance and use of automobiles."

By a provision contained in the latter part of Section 70, a company electing to issue policies under subdivision 9 may embrace in

one policy risks under subdivision 2, clause (a) of subdivision 3, and subdivisions 5 and 9.

The first general statute of this State pertaining to insurance companies, Chapter 308 of the Laws of 1849, was "An Act to Provide for the Incorporation of Insurance Companies," Section 1 providing for marine companies, Section 2 for fire companies, Section 3 for health and life companies. The powers of a fire company were

"to make insurances upon dwellings, houses, stores and all kinds of buildings, and upon household furniture, merchandise and other property, against loss or damage by fire and the risks of inland navigation and transportation."

In 1853 Chapter 466 was enacted, being "An Act to provide for the incorporation of fire insurance companies," with the same powers for such a corporation as were contained in the Act of 1849, Section 1. In the same year Chapter 463 was enacted, being "An Act to provide for the incorporation of life and health insurance companies and casualty insurance companies."

In the general fire Act of 1853, Chapter 466, that portion of the Act of 1849 relating to fire companies was repealed. In the Act of 1853, Chapter 463, that portion of the Act of 1849 relating to life companies was repealed. This left the Act of 1849 as the marine Act.

Thus it will be seen that from the insurance legislation of 1853 in the State of New York, a distinction or separation has been made between three great classes of insurance—Marine, Fire, Life or Casualty (casualty except to the person, not permissible for a life company).

The Act of 1853 relating to fire companies, Chapter 466, is now carried in our present insurance code as Article III, which is captioned "Fire Insurance Corporations." If the caption were properly descriptive of this article, a better title would be "Fire and Property Damage Insurance Corporations." Indeed, the statute itself, after enumerating the powers of such companies, specifically provides that "every such corporation shall be known as a fire insurance corporation." This suggestion is made by reason of the increased powers now acquirable by a fire insurance corporation, as such, not taking into consideration the ocean marine powers granted in 1910 to a company with the necessary capitalization. All of such increased powers, however, are those which may properly be exercised by a fire insurance corporation, according to the scope of such corporations as they have naturally grown with time and with new conditions. Following the San Francisco conflagration was the demand for earthquake insurance, granted in 1907; provisions for automobile insurance, with the various hazards incident thereto, were placed in the statute by the enactments of 1908 and 1911; the growing recognition that a legitimate part of fire insurance is the conservation of property and reduction of fire waste resulted in the introduction of sprinkler leakage insurance by the legislation of 1910.

It is believed that a table showing the growth in the powers of a fire company in New York State from 1849 up to the present time will be of interest. Such a table will be found in Exhibit "B" attached to this paper.

In examining the table it is worthy of note that the extension of powers was granted not to enable companies to issue a new policy which might be an attractive seller, but, rather, to meet a real demand from the insuring public.

Having placed before you a resumé of the underwriting powers of a fire insurance corporation, and the coverage which may be given by a casualty company as to automobiles, in New York State, it would seem that the question of the desirability of adding to those powers now acquirable by a fire company the right to insure against personal accident should have careful consideration. This opens a broad field for thought and discussion, and in this connection a few suggestions would seem appropriate.

Of fundamental importance is the question of reserves. The casualty company, as such, assuming the hazard of injury to the person, incident to the use of an automobile, must maintain not only the unearned premium liability, but also the special loss reserve required under the laws of many of the States. No one will question the necessity of this loss reserve. If the fire company is to be permitted to add to its present powers the right to assume liability to the person, incident to the use of automobiles, then specific provision should be made in the fire law to provide for this same reserve.

Another and even more important question concerns the moral obligation of favoring equally each class of companies. If the fire company, as such, is to be permitted to insure against liability for injury to the person, then in all fairness the casualty company should be given the right, in its automobile policies, to assume the fire hazard. If this departure is to be recognized, the doors will be open for further legislation. The next demand will very possibly be one from the casualty companies, requesting that those policies now recognized in the New York law, and in other States also, covering residences and private apartments, wherein is embraced in one policy, liability to the person (as specified in subdivision 3 of Section 70), loss by burglary (as specified in subdivision 5), loss upon glass against breakage (as specified in subdivision 6), loss incident to the use of steam boilers (as specified in subdivision 7), loss on account of damages by the use of sprinklers (as specified in subdivision 10), and loss or damage to elevators or other property, **excepting loss or damage by fire** (as specified in subdivision 11), be so extended as to permit the assumption of the fire hazard,—with the complementary demand on the part of the fire companies that they be permitted to embrace in a like policy the casualty hazards above referred to.

This so-called "household policy," a combination casualty contract which does not, however, embody any coverage against fire, is the outgrowth of a real public demand. The owner of a house, desirous of complete coverage, must secure from a casualty company the household policy, and from a fire company his coverage against the fire hazard,—two policies. Those who advocate the full coverage automobile policy, including the person, give as their reasons for asking for this full coverage that it is for the convenience of the assured and is demanded by the public. In connection with the claim that there is a public demand for a single policy which will furnish full automobile coverage, conservative underwriters have suggested that this demand comes not from the policyholder, but from the agent, and is, in fact, a demand created solely through advertising. The fact that no new companies are being formed for the purpose of writing such business in the States which already permit the formation of such companies, and the further fact that the companies which could issue such policies if they wished, do not do so, emphasizes very clearly the fact that the companies themselves do not believe that there is any real demand on the part of the public for the full coverage automobile policy. We may be very sure that if the public demanded such a policy the companies which could issue it would very speedily meet that demand.

If the convenience of the assured is to be the primary consideration, is it not as logical to permit the extension of coverage on his home as it is to permit the extension of coverage on his automobile? If the convenience of the assured is to govern underwriting practices, where shall the stopping place be? The fire company writing full automobile coverage, including injury to the person, is now to a limited extent invading the field of casualty insurance. Some of the companies, as a further inducement, are offering in connection with their automobile policies insurance against personal accident to the owner suffered in connection with the automobile. Given a complete policy covering both fire and liability, we must, by force of the arguments permitting that, allow the same companies to write workmen's compensation for chauffeurs. What shall be the next step?

In our State we have adhered to those classifications contemplated in our insurance law which make it impossible for one corporation to furnish full coverage automobile insurance, including injury to the person. Such coverage has been quite satisfactorily furnished by several companies, through an arrangement between a fire company and a casualty company for the issuance of two policies upon one sheet of paper, as convenient to the policyholder as a single policy, but in reality two separate contracts, one on the part of the fire company insuring the various risks which may be covered by such a company, the other on the part of the casualty company, insuring the balance of the risks desired by the applicant for full coverage automobile insurance. While such contracts are separate, they are furnished to the insured for a lump premium, the premiums and the proportionate liability of each company being separately recited in the contract,—resulting in two policies under a single cover for all of the hazards to which automobiles are subject.

New York has, since the organization of the insurance department in 1859, consistently advocated what has come to be known as the American system of insurance. In the first three reports of the first Superintendent of the Department, Hon. William Barnes, this question is discussed, and the desirability of requiring insurance corporations to adhere to certain classes of risks advocated. This question was reviewed by the former Superintendent, Judge Hasbrouck, at the Asheville Convention, in a paper presented by him, entitled "Should We Abandon the American Restrictions Upon the Classes of Insurance Written both (a) By a Company Doing Direct Writing, and (b) By a Company Doing Reinsurance?" He closed his remarks at that time as follows:

"In the last analysis, is it not true that much of the credit for the amazing growth of business in this country is due to our wonderful success in specialization? The trend of the times is in the direction of the specialist. The great businesses, the economic and professional successes of the country, are largely attributable to specialization. And in this general concentration of effort, it seems to me that we must recognize the specialists in the insurance business. We find able executives and life underwriters guiding the affairs of our great life insurance corporations, and this is equally true of our fire and casualty corporations. Will the same efficiency, wonderful growth, and corporate soundness result when the intricacies of multifield powers are in the hands of one set of executives? I cannot believe that they will."

With this statement on the part of our former superintendent, this rather complicated subject is submitted for your consideration.

EXHIBIT "A."

*STATE.	May domestic companies issue full coverage automobile policy?	May foreign companies issue full coverage automobile policy?	Name of such domestic or foreign companies
Alabama	Yes	Yes	Interstate Casualty Co. of Birmingham, Ala.
California	Yes	Yes	{ St. Paul Fire and Marine Fireman's Fund Union Marine Phoenix Assurance
Canada	No	No	None
Colorado	No	Yes	{ Aetna Accident and Liability American Auto. Ins. Co. of St. Louis Fireman's Fund Pacific Ind. Exchange Utilities Ind. Exchange
Connecticut	All insurance companies are organized under spe- cial charter	No	None
Dist. of Columbia...	Yes	Yes	American Automobile Ins. Co. of St. Louis
Florida	Yes	Yes	None
Idaho	No	No	None
Illinois	No	Yes	American Automobile Ins. Co. of St. Louis
Indiana	No	Yes	American Automobile Ins. Co. of St. Louis
Iowa	No	No	None
Kansas	Reciprocal only.	Yes	American Automobile Ins. Co. of St. Louis
Kentucky	No	No	None
Louisiana	No	Yes	American Automobile Ins. Co. of St. Louis
Maine	No	No	None

EXHIBIT "A."—Continued.

*STATE.	May foreign companies issue full coverage automobile policy?	May domestic companies issue full coverage automobile policy?	Name of such domestic or foreign companies
Maryland	Yes, but none doing so.....	Yes	Aetna Accident and Liability Co.
Massachusetts	No	No	None
Michigan	Only company organized solely for automobile in- surance	Only company organized solely for automobile in- surance	American Auto. Ins. Co. of St. Louis and sev- eral domestic mutuals and reciprocals
Minnesota	Yes	Yes	St. Paul Fire and Marine
Missouri	Only reciprocals or compa- nies transacting only au- tomobile insurance	Yes	{ American Automobile Ins. Co. of St. Louis Aetna Accident and Liability Co.
Nebraska	No	No	None
New Hampshire	Yes	Yes	None
New Jersey	No	No	None
New Mexico	No	No	None
New York	No	No	None
North Carolina	Yes	Yes	No answer
North Dakota	Yes	Yes	No answer
Ohio	No	Yes	American Automobile Ins. Co. of St. Louis
Oklahoma	No	No	None
Oregon	Yes	Yes	{ Aetna Accident and Liability Co. Fireman's Fund Phoenix Assurance Union Marine

EXHIBIT "A."—Concluded.

*STATE	May domestic companies issue full coverage automobile policy?	May foreign companies issue full coverage automobile policy?	Name of such domestic or foreign companies
Pennsylvania	Reciprocal exchanges only	Reciprocal exchanges only	Pennsylvania Ind. Exchange
Rhode Island	All insurance companies are organized under spe- cial charter	No official decision reached	None
South Carolina	Yes	Yes	None
South Dakota	No	No	None
Tennessee	Yes	Yes	American Automobile Ins. Co. of St. Louis
Utah	Yes	Yes	{ American Automobile Ins. Co. of St. Louis
Virginia	Yes	Yes	{ Aetna Accident and Liability Co.
Washington	Yes	Yes	None
			{ St. Paul Fire and Marine
			{ Fireman's Fund
West Virginia	No	No	{ American Automobile Ins. Co. of St. Louis
Wisconsin	Yes	Yes	{ American Indemnity Co. of Galveston
Wyoming	Yes	Yes	None
			None
			None

*The items herein have in each case been verified by the respective departments concerned.

EXHIBIT "B."

Analysis of Coverage Authorized for Fire Insurance Companies by Section 110 of the New York Insurance Law, With
Reference to Statutes Authorizing Particular Coverages.

On (a) Dwellings	1849, ch. 308, §§ 1, 2 and 1853, ch. 466, §§ 1, 2
(b) Houses	
(c) Stores	
(d) All kinds of property.....	1849, ch. 308, §§ 1, 2, and 1853, ch. 466, §§ 1, 2
against loss or damage by	1913, ch. 296, § 1
(including loss of use or occupancy)	1849, ch. 308, §§ 1, 2, and 1853, ch. 466, §§ 1, 2
(1) Fire	1892, ch. 690, § 110
(2) Lightning	1882, ch. 218, § 1
(3) Windstorm	1882, ch. 218, § 1
(4) Tornado	1913, ch. 296, § 1
(5) Cyclone	1907, ch. 503, § 1
(6) Earthquake	1913, ch. 296, § 1
(7) Hall	1913, ch. 296, § 1
(8) Frost	1913, ch. 296, § 1
(9) Snow	1913, ch. 296, § 1
(10) Explosion (whether fire ensues or not)	1913, ch. 296, § 1
(except boiler explosion)	1910, ch. 168, § 4
(e) Goods	1910, ch. 168, § 4
(f) Premises	1910, ch. 168, § 4
by loss or damage from water through	1910, ch. 168, § 4
(g) Sprinklers, pumps and other apparatus by	1910, ch. 168, § 4
(h) Vessels	1910, ch. 168, § 4
(i) Boats	1861, ch. 92, §§ 1, 2
(j) Cargoes	1861, ch. 92, §§ 1, 2
(k) Goods	1861, ch. 92, §§ 1, 2
(l) Merchandise	1861, ch. 92, §§ 1, 2

EXHIBIT "B."—Concluded.

(m) Freights	1861, ch. 92, §§ 1, 2
(n) Other property	1861, ch. 92, §§ 1, 2
against loss or damage by risks of	1849, ch. 308, §§ 1, 2, and 1853, ch. 466, §§ 1, 2
(13) Inland navigation and transportation	1861, ch. 92, §§ 1, 2
(including lake, river and canal)	1910, ch. 168, § 4
(14) Ocean marine	1908, ch. 346, § 1
(o) Automobiles (stationary or operated under their own power)	
including hazards of fire (1), explosion (10), transportation (13), and	
(15) Collision	
(16) Property damage	1911, ch. 126, § 1
(17) Burglary	
(18) Theft	
exclusive of personal injury	

THE NATIONAL GOVERNMENT AS A PREFERRED CREDITOR IN SURETY INSURANCE.

By Wm. M. Shehan, Insurance Commissioner of Maryland.

By request of the Executive Committee of the National Convention of Insurance Commissioners, I have undertaken this paper, the subject assigned me being "The National Government as a Preferred Creditor in Surety Insurance."

On several previous occasions a list of subjects has been submitted with the request to make a selection, and I have escaped the writing of a paper by failing to select, but in this instance no choice was left me, and I am here by compulsion, rather than by design, and the fault of inflicting this upon you is rather with the Executive Committee than with myself. The subject, however, that has been selected for me is one almost entirely legal in character, and presents some rather interesting phases.

Since the Federal Government, as such, has no common law jurisdiction, and the scope of its powers and purposes is limited by the Federal Constitution and the Acts of Congress passed in pursuance thereof, in considering this subject, as well as most other Federal subjects, a review of the Constitutional provisions and of the Acts of Congress is necessary. It seems rather strange, in a matter of comparatively modern invention, or at least application, that it is necessary to go back to the earliest period of our Federal Government for the statutes that govern the preferences of the government in its claims against surety companies growing out of Fidelity or Surety insurance. The wisdom and foresight of the framers of early Federal legislation has been so often demonstrated that it is not surprising that the Acts of Congress, passed as early as the years 1797 and 1799, should play a prominent part in the processes of the National Government in its claims as creditor with regard to Surety insurance as well as in other matters of comparatively modern origin.

The English government and matters distinctively English were not in high favor in this country at the time of the passage of these Acts. The bitterness of strife, with all its attendant losses and sacrifice, was too fresh in the memory of our forefathers to permit very much admiration or kindly feeling on their part; yet the people of America, speaking generally, knew only one system of law, and that had been ground into them through centuries of its development in England, and this had naturally a powerful influence, not only in the framing of the Federal Constitution, but in the early Acts of Congress passed in pursuance thereof, and also in the rules of construction of these Acts. This was true, by force if not by choice, for the English common law was all they had to draw upon as a people with certain aims and purposes setting about to frame a constitution and a body of laws in pursuance thereof. Then, too, it was no want of regard for the English common law that brought on the Revolutionary war, but rather the devotion to it, and the belief that the government of England was transgressing the fundamental principles of the English Constitution in its dealings with the American colonies. As incident to the sovereignty of England, and as a prerogative of the king, there had always been a rule of law that any debt due the crown was preferential to all other monetary obligations, and this principle at a very early period forced its way into our Federal Statutes by reason of its logic and proven necessity. In the Revised Statutes of the United States, Sections 3466, 3467 and 3468, passed in the early years above men-

tioned, became a part of the body of the Federal law. These sections are as follows:

"Sec. 3466. Whenever any person indebted to the United States is insolvent, or whenever the estate of any deceased debtor, in the hands of the executors or administrators, is insufficient to pay all the debts due from the deceased, the debts due to the United States shall be first satisfied, and the priority hereby established shall extend as well to cases in which a debtor, not having sufficient property to pay all his debts, makes a voluntary assignment thereof, or in which the estate and effects of an absconding, concealed, or absent debtor are attached by process of law, as to cases in which an act of bankruptcy is committed.

"Sec. 3467. Every executor, administrator, or assignee or other person, who pays any debt due by the person or estate from whom or for which he acts, before he satisfies and pays the debts due to the United States from such person or estate, shall become answerable in his own person and estate for the debts so due to the United States, or for so much thereof as may remain due and unpaid.

"Sec. 3468. Whenever the principal in any bond given to the United States is insolvent, or whenever, such principal being deceased, his estate and effects which come into the hands of his executor, administrator or assignee, are insufficient for the payment of his debts, and, in either of such cases, any surety on the bond, or the executor, administrator, or assignee of such surety pays to the United States the money due upon such bonds, such surety, his executor, administrator, or assignee, shall have the like priority for the recovery and receipt of the moneys out of the estate and effects of such insolvent or deceased principal as is secured to the United States; and may bring and maintain a suit upon the bond, in law or equity, in his own name, for the recovery of all moneys paid thereon."

As might have been expected, the constitutionality of these enactments was early brought before the courts for adjudication and their legality sustained, and the reasons for these statutory rules governing (measurably) the distribution of bankrupt, insolvent and decedent's estates, were clearly and conclusively given. In the case of *United States vs. Bank of North Carolina*, 6th Peters (U. S.), 34, it was said:

"The right or priority of payment of debts due the government is a prerogative of the crown, well known to the common law. It is founded not so much upon any personal advantage to the sovereign as upon motives of public policy, in order to secure an adequate revenue to sustain the public burdens and discharge the public debts. The claim of the United States, however, does not stand upon any sovereign prerogative, but is exclusively founded upon the actual provisions of their own statutes. The same policy which governed in the case of royal prerogative may be clearly traced in these statutes, and as that policy has mainly a reference to the public good, there is no reason for giving to them a strict and narrow interpretation; like all other statutes of this nature, they ought to receive a fair and reasonable interpretation, according to the just import of their terms."

The United States has, by virtue of these statutes, but not by virtue of any absolute or incidental legal right or power under the common law, the exclusive privilege of being entitled to priority in payment over other creditors in all cases of insolvency or bank-

ruptcy of their debtors. *U. S. vs. Fisher*, 2nd Cranch, 358; *Lewis vs. U. S.*, 92 U. S., 618.

We cannot, however, leave this broad statement of the law without referring to some exceptions and qualifications, especially so, as to the rules laid down in the case of *Lewis vs. United States*. This case was decided prior to the Bankruptcy Act, and while it seems to have been taken as a correct and conclusive statement of the law by some writers, the later decisions have introduced a number of refinements of the rules therein laid down, especially with regard to the present Bankruptcy Act. Some of the text writers have stated that the Bankruptcy Act in no way modified the rules for distribution prescribed in Section 3466 of the Revised Code, and base this conclusion upon the *Lewis* case and other early cases.

Brandenburg on Bankruptcy, Section 1011, has this to say:

"The present (bankruptcy) law as the Act of 1867, specially provides taxes due to Federal, State or municipal governments shall be entitled to priorities of payment, but, unlike the former, the present law, so far as the government is concerned, provides for priority of taxes only. This provision, however, is not to be considered as superseding, or in any wise limiting, Sections 3466 and 3467 of the Revised Statutes, but is to be construed as supplementary and in *pari materia*, doubtless being inserted in the present law merely to recognize and re-affirm the right which these sections gave to exclude the possibility of a different conclusion."

But a recent case decided by the Supreme Court of the United States (*Guarantee Title and Trust Company vs. Title Guaranty and Surety Company*, 32 Supreme Court Reports, 457, 224 United States Supreme Court Reports, 152), and also *Remington on Bankruptcy*, at least modifies very materially the above conclusions. This latter case is worthy of very careful consideration. It has certainly given me no little trouble, and I shall take occasion to refer to it and discuss it more at length before I have finished this paper.

I now will return to a discussion of Sections 3466-67-68 of the Revised Code.

These statutes apply to corporations as well as to private individuals, the word "person" having been comprehensively construed to include corporations as well as natural persons.

Beaston vs. Farmers Bank, 12 Peters, 102.

The only other exception of which I know is that of an insolvent National Bank for which there are special rules prescribed. It seems, therefore, there can be no question as to the application of these statutes to surety bonds or surety insurance, and if there were, Section 3468 clearly shows the intent to embrace the matter of all suretyship under said Acts.

The right of the United States Government attaches upon the insolvency or bankruptcy of the debtor, whether that debtor be an individual or a corporation, and is applicable in all cases where the relation of the debtor and creditor exists between the United States and any person, natural or artificial. As long as a Surety company is solvent and is able to pay all of its obligations, there is no reason for the application of this rule as to preferences,—and the right of preference only arises upon the insolvency or bankruptcy of surety companies. The necessity and reason for the rule is predicated upon an inability to pay in full. This inability, insolvency or bankruptcy, however, must be manifested by such notorious or overt act of the debtor as is recognized by law. A mere state of insol-

vency is not in itself sufficient to call into operation the provisions of the statute.

Prince vs. Bartlett, 8 Cranch, 431.

It is the legal bankruptcy or insolvency, the passing into the hands of the assignees or liquidators for the benefit of creditors, or the debtor's voluntary assignment, that brings into operation the provisions of these statutes and other statutes similar in character, and places the United States in a position where it may assert itself as a preferred creditor.

Bush vs. The United States, 14 Federal Reporter, 321.

The United States vs. Wilkinson, 5 Dillon, 275.

When the right of preference has been established by some act or default of the debtor, debts of every kind, equitable as well as legal, owing to the United States Government, may be asserted, and this applies to both principal and surety, joint and several obligations, those due or to become due, and whenever or wherever contracted. This priority attaches at the instant of the act of bankruptcy. It will thus be seen that the broadest construction possible has been placed upon these statutes. There are, nevertheless, some exceptions, both real and apparent, to the application of this right of priority in the Federal Government. It must be clear in our minds that no preference or priority as a creditor is held by the United States Government except through the force and operation of statutory provisions; hence, it has no priority in the payment of debts except in the cases of bankruptcy or insolvency arising in one of the modes indicated in the statute, as by assignment, attachment, or account of bankruptcy manifested by some overt act. Assignment of the debtor's property must be a general one, as distinguished from a mere partial assignment. An assignment professedly of a part only of the debtor's property will not satisfy the statute and give to the government the benefit of the statute. Again, the privilege vested in the government does not go to the extent of destroying, postponing or interfering with a bona fide conveyance made before bankruptcy, or insolvency, nor does it destroy or in any way interfere with a mortgage lien or a judgment upon which there has been an execution issued and property taken. These latter exceptions, namely, mortgages, bona fide conveyances and sales under execution, are in reality not exceptions at all, because in these cases the property is no longer that of the debtor, but passes from him, and the statute contemplates ownership by the debtor at the time of the insolvency, bankruptcy or assignment. The lien or conveyance must be specific and not a mere general lien, such as that of a judgment. This very important question, viz.: the postponing of the operation of a valid judgment to the priority given by the statute, came before the Supreme Court in the case of *Thelusson vs. Smith*, 2nd Wheaton, 396, and it was there held that these statutes defeated a general lien acquired by a judgment creditor upon all the real estate belonging to the judgment debtor located in the jurisdiction in which the judgment was rendered. This decision gives a very comprehensive idea of the extent to which the courts have gone in giving effect to these statutes. While the debts capable of being asserted by the Federal Government may be either legal or equitable, they must be subsisting obligations recognized by law.

United States vs. Duncan, 4th McLean, 607.

Field vs. U. S., 9th Peters, 183.

Cyc. of Law, Vol. 39, p. 750 and citations.

Having very briefly and in a most general way considered the debts that may be asserted by the United States Government as

preferences and the exceptions to the rule, it seems to be in order to consider the manner in which these statutes are practically applied. It has been decided in numerous cases, and it will clearly appear in the reading of the Acts, that they do not impose any lien upon the property of the debtor either before or after his insolvency or bankruptcy; but the most that they do is to prescribe a rule for distribution of estates under certain conditions. They merely point out a mode of distribution. The government is not put to the necessity of proving its claim in the liquidation proceedings in order to assert its right to priority. Actual or constructive notice on the part of the liquidator is, however, a condition precedent to liability on his part to pay the government claim out of his own estate. The right of priority of payment possessed by the United States is one of which it cannot be deprived by any State law, and the United States is, therefore, from the standpoint of protection, absolutely guarded in this right, and may assert the same against the assets of the surety company whenever the necessary pre-requisites have occurred, without reducing the claim to judgment, and the surety on a bond becomes a debtor to the United States whenever a condition of the bond is broken.

United States vs. Clark, 1 Paine, 629.

Lewis vs. U. S., 92 U. S., 618.

United States vs. Hooe, 3 Cranch, 73.

United States vs. Foster, 2 Cranch, 258.

Aside from the statutory provision, as has been stated, the Federal Government has no priority as a creditor, yet we might imagine cases in which it would practically be preferred because certain provisions of the law are inoperative as against the government of the United States and of any State. The statute of limitation may be set up against an individual but not against the government; laches may be proven against an individual, but not against the government; set off, as a rule, may not be pleaded against the government, and matters of estoppel may operate against individuals and not against the government. The operation of these rules of law might give to the government an opportunity to participate in the assets of estates where individuals may not, and, furthermore, might work to the advantage of the government through the exclusion of claims of individuals. However, this is merely a thought and may be of very little practical importance in the consideration of this subject.

I now desire to discuss, as briefly as possible, the present Bankruptcy Act, and especially Section 64, relating to "Priorities and the Order of Distribution," provided in Section 64 of that Act, which is as follows:

"b. The debts to have priority, except as herein provided, and to be paid in full out of bankrupt estates, and the order of payment shall be:

1. The actual and necessary cost of preserving the estate subsequent to filing the petition;

2. The filing fees paid by creditors in involuntary cases, and where property of the bankrupt, transferred or concealed by him either before or after the filing of the petition, shall have been recovered for the benefit of the estate of the bankrupt by the efforts and at the expense of one or more creditors, the reasonable expenses of such recovery;

3. The cost of administration, including the fees and mileage payable to witnesses as now or hereafter provided by the laws of the United States, and one reasonable attorney's fees for the profes-

sional services actually rendered, irrespective of the number of attorneys employed, to the petitioning creditors in involuntary cases, to the bankrupt in involuntary cases while performing the duties herein prescribed, and to the bankrupt in voluntary cases, as the court may allow;

4. Wages due to workmen, clerks, or servants which have been earned within three months before the date of the commencement of proceedings, not to exceed three hundred dollars to each claimant; and

5. Debts owing to any person who by the laws of the States or the United States is entitled to priority."

I have previously referred to this section and to the case of *The Guaranty Title and Trust Company vs. The Title Guaranty and Surety Company*. In this case the lower court was reversed by the Supreme Court, and it was held on appeal that the present bankruptcy law, Section 64, deprived the United States Government of any preference it might have under Section 3466 of the Revised Statutes when that section was in conflict with the Bankruptcy Act, and especially decided that claims for labor, clerk hire, etc., were preferences to any claim of the government, except taxes, which were specially provided for in a previous sub-section. I am somewhat puzzled as to just what effect sub-Section B (5) has, in view of this decision, upon Section 3466 of the Revised Statutes. This matter was not discussed by the court in the above case, evidently because it was not necessary to the decision, and yet the learned Justice, in passing, made the following remarks:

"It will be seen, therefore, that by the statute of 1797 (now *3466) and *5101 of the Revised Statutes, all debts due to the United States were expressly given priority to the wages due any operative (160) clerk or house servant. A different order is prescribed by the Act of 1898, and something more. Labor claims are given priority, and it is provided that debts having priority shall be paid in full. The only exception is 'taxes legally due and owing by the bankrupt to the United States. State, county, district or municipality.' These were civil obligations, not personal conventions, and preference was given to them; but as to debts, we must assume a change of purpose in the change of order. And we cannot say that it was inadvertent. The Act takes into consideration, we think, the whole range of indebtedness of the bankrupt—national, State, and individual—and assigns the order of payment. The policy which dictated it was beneficent and well might induce a postponement of the claims, even of the sovereign, in favor of those who necessarily depended upon their daily labor. And to give such claims priority could in no case seriously affect the sovereign. To deny them priority would in all cases seriously affect the claimants."

From this it first would seem that it was the intention of the Bankruptcy Act to provide a complete schedule for distribution of all the bankrupt's property, and unless the United States was to be considered as "a person" within the meaning of this sub-section, it would not be entitled to any priority, and the opinion delivered in the lower court in the above case, decided that the United States was not to be held to be a "person" within the meaning of this sub-section; whether or not the Supreme Court meant in reversing the case to reverse that part of the lower court's decision, I cannot say, because it is not so specifically stated, and yet it is my opinion

that it did mean to do so from the language of the learned Justice immediately following, in which he stated:

"The policy which dictated it was beneficent and well might induce a postponement of the claims, even of the sovereign, in favor of those who necessarily depended upon their daily labor. And to give such claims priority could in no case seriously affect the sovereign. To deny them priority would in all cases seriously affect the claimants."

This conclusion would also seem to be borne out by Remington on Bankruptcy, Section 2191, wherein it is stated:

"The priority of the United States Government is governed by the Bankruptcy Act, Section 64 (B-5), by which it is placed subsequent in order to wages of workmen, clerks, etc., and is not governed by U. S. Revised Statutes, Section 3466."

The result of it all would seem to be that the priority of the United States Government is postponed only as to costs of the proceedings, taxes and wages of workmen, clerks, etc. This would work no very material disadvantage to the government in its priority as defined by the earlier decisions, but if the bankruptcy law provides a complete schedule for distribution of the bankrupt's estate and the United States is not considered a "person," within the meaning of sub-Section B-5, the priority of the United States is practically destroyed, in so far as bankruptcy estates are concerned, but this, bear in mind, only applies to bankrupt's estates—administered in bankruptcy, and not otherwise.

There are some very interesting questions arising with relation to special deposits made in States having laws requiring such deposits by surety companies, and the effect of the right of priority upon these and their status in relation to the assets of surety companies.

Several years ago a special committee appointed by the Surety Association of America through Gen. J. Kemp Bartlett, counsel for the United States Fidelity and Guaranty Company, presented some phases of this question in a very exhaustive and able brief to the solicitor of the treasury department of the United States. His contentions being in opposition to the deduction proposed by the supervising official of the treasury department to be made of the assets of surety companies under the special deposit laws of the several States. This brief is on file in the treasury department.

In considering this question we should start with those principles of law to which reference has been made.

1. That of the general priority of the government in the assets of insolvent or bankrupt companies.
2. That the said right has preference over judgments and decrees of court as well as other claims.
3. That the said right of preference may not be destroyed nor abridged by any Act or a State Legislature.
4. That no prior bona fide conveyance of the debtor's property, nor prior, special, perfected lien is destroyed or interfered with by any rule of priority.

Bearing these general principles in mind, and assuming the correctness of them, there can be no doubt as to the application of the rule to general deposits or the general assets of a surety company, but as to its application with regard to the special deposits made under requirement of State laws, the question becomes very interesting.

1. As to whether the government would be preferred to the claim of any person, class of persons, State or municipality, for whose benefit the special deposit has been made.

2. In determining the solvency vel non of surety companies in so far as the Federal Government is concerned.

3. In determining how much carriage a surety company is entitled to assume under the limitation of the Federal rule of 10 per cent.

These questions are so closely allied that much that may be said of one applies with equal force to the other.

The Secretary of the Treasury Department of the United States, by the Act of August 13, 1894, is empowered to decide whether a surety company is able to keep and perform its contracts, is solvent and is not conducting its business in violation of the law. The manner in which these special deposits are to be held, with reference to the claim of the Federal Government, has a great deal to do in determining the solvency of surety companies, in so far as the Federal Government is concerned.

If the Federal Government has a prior claim to that of any person or State or municipality with regard to special deposits, then in determining the question of solvency vel non, it seems that whether the securities were on special or general deposit would make no difference whatever, the right of priority of the United States being as good against the one as against the other, and the United States would be as well protected by assets held on special deposit as on general deposits. It can well be argued that the lien or claims of the class of persons for the benefit of whom the deposit is made, is no greater than that of a judgment creditor in lands affected by the judgment, and, as already pointed out, the case of *Theluson vs. Smith* disposes of this question in favor of the United States Government, and the decision in this case has been followed by numerous other cases. The case of the United States vs. Duncan is authority for the principle that the Act of Congress giving the United States a priority supersedes all State laws on the subject of distribution of those assets that fell within their provisions, and that these Acts make no exception in favor of any particular class of creditors, and that the priority of the United States does not yield to the claim of any creditor, however high may be the dignity of their debts. This case also reaffirms that which has already been said in regard to the liberality of the construction of these statutes, and the State, by any Act of Legislature, cannot interfere in any way with this right, neither can a decree of any State court accomplish that end. If the rule established by these cases applies with full force to the assets of surety companies, and I know of no reason for making in that behalf an exception, special deposits, as well as general assets, should be considered and included in deciding the three questions above mentioned. It is very true that the funds out of which the United States is to be first paid must be the property or assets belonging to the debtor, and not to some third person; therefore, there might be some question as to whether or not, if by virtue of a State law, these special deposits were made under terms and conditions so strong and in such form that it would amount to a bona fide conveyance, the deposit would thereby be freed from the operation of these statutes.

It would seem to me, however, that none of the State statutes, as far as I can ascertain, go to such extremes. There is reposed in a State, power to deny a surety company, created by another State, the right to do business therein except on such terms and conditions as it may impose, and that among these conditions there may be a requirement of a surety company applying for a license to do busi-

ness in a State before such license is issued, to deposit with some person or persons as trustee securities of a given amount for the protection and security of a class of creditors. If such a requirement were complied with, and the terms of the statute were sufficiently strong to divest the company of its interest and property in said securities to such an extent that the transfer of the securities would amount to specific conveyance, there is very good reason to believe that the United States Government, upon liquidation of the company, would be deprived of its priority in such securities. If a surety company should voluntarily make a conveyance of some part of its securities for the use of certain individuals or class of individuals, and this conveyance was bona fide and the surety company thereby became divested of its title to the same extent it would have done if it had mortgaged its property, there can be no question, because the courts have decided that such a mortgage would defeat the priority of the United States Government, but where, under an Act of the Legislature, securities are required to be deposited with an official of some State for the benefit of policyholders residing in such State, the ownership being retained by the company, presents a different proposition. In this case it is exceedingly doubtful, to my mind, under the decisions, that an Act of the Legislature can so deprive the United States government of its priority in any of the assets of a surety company. The cases have gone about as far as it is possible for them to go in saying that no Act of the Legislature in any State can abridge or destroy the priority given by Sections 3466 and 3467 of the Revised Statutes of the United States. A class of creditors would be no more entitled to exception from the rule than an individual creditor, and so long as the property or security on special deposits remain in the ownership of the surety company, it seems that the priority of the Federal Government would not be destroyed. It would seem that the one thing that destroys this priority is the parting with the ownership by the debtor. If it is true that securities on special deposit, by virtue of the priority of the United States Government, may be subjected to its claims the same as general deposits, then from the standpoint of the Federal Government there ought not to be any question as to the solvency of a surety company so long as the general assets of the company, together with the special deposit securities, are sufficient to satisfy the rules governing the solvency of surety companies. It would likewise seem clear, assuming that the priority of the United States Government attaches to these special deposits that in the 10 per cent. limitation rule the special deposits ought to be considered and the surety company should have credit for the same. I am informed that the Treasury Department, at the time of the presentation of this matter, was inclined to these views as to the gauging of the solvency of the surety companies, and as hereinbefore shown, the Treasury Department of the United States is vested with the right to pass upon the solvency of the surety companies and their ability to perform their contracts as to their obligations with the United States Government, and if they were to be included in the assets of the company for the purpose of determining its solvency, it was because of the government's priority and for no other reason that I can discover.

THE VALUE OF SCHEDULE RATING IN SECURING EQUITABLE FIRE INSURANCE RATES.

By Wm. F. Dunbar, Insurance Commissioner of Tennessee.

For some fifteen years it was my business to apply, or superintend the application of, rating schedules in a number of States. This was, however, some eight years ago. Therefore, I enter upon a discussion of the subject with much diffidence. Realizing that I could not do justice to my thesis in the limited time at my disposal, I was inclined to ask the Convention to either excuse me altogether, or give me more time in which to prepare myself.

But I happened to glance over the proceedings of the 1913 Convention of this body. I was struck by the number of names among those present that were unfamiliar to me, and on comparing the names of Commissioners three years ago with those in office today, I found that there had been twenty-two changes in the heads of the thirty-five departments represented at the Convention only three years ago. This circumstance excited my curiosity. It indicated a much higher rate of official mortality than I had suspected when I sought the appointment; and in order to determine whether it was an unusual exodus, I went back to the year 1912. I was shocked to find that in the past four years there had been a change in the Commissioners of thirty-seven of our forty-eight States. Going back ten years (the usual time required for a dependable insurance average) it was found that only three of the Commissioners in office in 1906 have survived.

It is indeed fortunate for the public that the mortality among insurance companies is not so high.

Thus impressed with the brevity of a Commissioner's official life, I decided that I had best speak while I have the chance. It may be my salutatory and valedictory.

The above record of changes is full of significance. It is pretty conclusive evidence that most of the States do not take their insurance departments very seriously, aside from their tax collecting functions. If there really were as much dissatisfaction with insurance conditions as some would have us believe, it would undoubtedly be reflected in a very different treatment of insurance departments.

A brief review of the history of rate-making appears necessary to an understanding of the subject assigned me.

The business of fire insurance had its beginning in England after the great fire of London in 1661. The first office was set up by a Dr. Nicholas Barbon, and the first record of rates charged is dated 1681. Rates were fixed by the annual rental value of a building, i. e., if rental value was one pound, the premium was 2s. 6d. for 7 years, 5s., or twice the 7-year rate for 21 years for 10 pounds insurance. These rates were for brick or stone buildings. For wooden buildings these rates were doubled. This plan did not last many years, for in 1700 the basis of building value supplanted the rental basis.

In this year there was also introduced a change in the periods for which policies were written. Prior to that time policies were not issued for less than 7 years. In 1700 they were issued for 1 year, or any number of years thereafter. Only buildings were insured. Insurance on goods and chattels was not offered until 1706, and the rate charged for contents was, the same as rate charged for the building that housed them.

Mr. Hardy says in his lectures on Fire Insurance Rating for the American School of Correspondence:

"Group System: The business then moved forward to the next step in 1714 or 1715, when the Union Fire Office introduced a system of classifying or dividing risks into groups, which has prevailed in a large measure even down to the present time. It is evident that when the insurance offices began to experience real fires, attention would be drawn to the fact that property occupied by certain businesses had more fires than that occupied by others. Insurance could not long have continued without acting upon this information. If the existing offices had not taken note of it, new ones would certainly be established that would. It seems to be fairly well established, however, that the Union Fire Office, founded in 1714, was the first to introduce the distinction of hazardous and doubly hazardous risks. They really had three classes, the first being called **common**, the second **hazardous**, and the third **doubly hazardous** insurance. This classification is in use to a certain extent in Great Britain today, and the same is true in the United States, although in this country it has more completely passed away since the system of schedule rating is so largely in force. It has been superseded in Great Britain where the 'special tariffs,' as they are called, apply, but it is still in force in mercantile properties and in the less hazardous risks."

About this time special tariffs were provided for certain trades which were placed in classes by themselves, such as distillers, brewers, ship and tallow chandlers, etc., which took higher rates.

These methods of determining the rate prevailed down to probably 1820. It was nothing more than a rough grouping of the different classes. When the class to which a risk belonged was determined it naturally fell into that class and its rate was ready for it. There was no distinction between risks of the same class because of individual merits or demerits. All risks in a given class took the rate provided for that class.

The first fire insurance organization in the United States was the Philadelphia Contributionship, or "Hand-in-Hand," founded in 1752, and which is still in a prosperous condition. A deposit was required, the interest on which was to pay losses and expenses. It wrote only buildings, and I think still adheres to that practice. Like its first English prototype, it had only two broad classifications—brick buildings and frame buildings, the rate for the latter being three times the rate for the former.

The development of the industry in this country naturally followed its evolution in Great Britain.

Stock fire insurance companies in the United States, writing at a fixed rate, as distinguished from mutual and assessment companies, began in 1794.

About 1795 the Massachusetts Fire Insurance Company put forward a classification of buildings according to their occupancies.

In 1820 a more elaborate classification was brought out by the Salamander Society, an association of companies in New York.

In 1839 a tariff of rates was issued for New York City which contained deficiency charges for rating warehouses and stores, and which was the beginning of the modern rating schedule. The first schedule is said to have been adopted in St. Louis in 1875.

About the year 1850 local Boards of Underwriters, composed of local agents of the companies, were organized, and rates were made, based on the judgment of committees appointed by these boards.

Rates so made, without any system of measurement, depending upon the judgment of the committees that made them, could not be uniform.

In 1866 the National Board of Fire Underwriters was organized. At first it had a very elaborate plan for rate making; but finding much opposition to a central source of rates for the whole country it finally abandoned any attempt at rate control in 1875. The argument was advanced, and successfully maintained, that rates made in a given section of the country for other sections would be made without a full understanding of local conditions. My observation has convinced me that much of the early opposition to schedule rating arose from local resentment of what appeared to be arbitrary authority exercised by a foreign and unsympathetic jurisdiction. Underwriters have recognized this, and the modern tendency of rate making is toward the advisory rating bureau for a State.

Under the early system of placing risks in groups, without recognizing a distinction between the individual members of a group, no great injustice was done, because in those days the individual member of a group was characteristic of its group.

With the advent of steam and electricity radical changes occurred in all human activities. Various manufacturing hazards were introduced in buildings which not only changed the crude classifications in use, but brought into existence completely new classes.

Furthermore, men who had so built or improved their risk as to be entitled to special treatment were demanding recognition of merit. The matter of sentiment, and the important consideration of competition caused such property owners to resent rates made without method and which discriminated against them by placing them in a class with risks of their competitors that were manifestly inferior and less desirable.

What is known as the "Omnibus" or "Multiple Occupancy" building came into existence—a building having such a variety of occupancies that it defied classification.

It became apparent that some system of measurement was necessary that would be fairer and more uniform in distributing the fire cost, and that would eliminate, as far as possible, personal influence and its consequent unfair discrimination. The fact that the distribution of the fire cost was a national and not a local problem, was recognized by the advanced thinkers in the industry of fire insurance.

Schedule rating had its origin in England, where the first tariff was applied to cotton mills. This class of risk being, as a rule, isolated from other buildings, and having characteristic hazards, was especially adapted to schedule rating, and was brought under schedule in this country probably as early, Mr. Hardy thinks, as 1850.

I am advised that rates are still made by schedules in Europe on various classes of risks, some seventeen tariffs being in use in Great Britain. But their schedules are nothing like as elaborate as ours. This for the reason that their strictly enforced building laws take care of many defects in building construction which must, in the absence of such a condition in our country, be recognized by schedules,—which have the object of bettering physical conditions as well as a fair distribution of insurance cost.

By far the most important premium source in this country is the mercantile class. There are many manufacturing and special schedules in use, but I shall confine my remarks to the mercantile.

The first mercantile schedule to come into general use was the Universal Mercantile Schedule, which appeared in 1893, the author being Mr. F. C. Moore. It is still in use in a large and important part of the country.

The Analytic System for the Measurement of Fire Hazard, by Mr.

A. F. Dean, of Chicago, made its appearance in 1901, and is now in use in about half the States.

Fortunately for myself and for the patience of my hearers, my thesis does not contemplate a comparison of schedules. I am expected to discuss only the principle involved in schedule rating and whether the system produces equitable insurance rates.

Schedules differ, but the underlying principle of all is the same, i. e., an attempt to rate each individual risk on its merits, to the end that the fire tax be equitably distributed, and hence to the end that what have been known as "preferred classes" be eliminated.

Mr. Dean says:

"There never has been the slightest attempt on the part of underwriters to conceal the fact that preferred classes have existed, and to a small and constantly diminishing extent, still exist; but it has long been the aim of the great body of company officials to eliminate these classes through schedule equalization of rates, and, as a matter of fact, preferred classes have so nearly been abolished that it has become difficult to select any given class with the assurance that it is exceptionally profitable. The ideal of every experienced and honest underwriter is that rates shall be so equitably adjusted that predatory rivals cannot detect the profitable classes. In the adjustment of rates among property groups, self-interest on the part of the companies is in absolute harmony with public welfare and the square deal. . . . In fire insurance, as translated today, each risk has an individuality of its own, and must receive independent treatment, and risks even of the same occupancy may vary indefinitely in both hazard and rate. . . . Fire insurance has no possible motive for discriminating among occupancies any more than for discriminating in structure, protection or exposure."

With the exception of sprinkled risks, dwellings and farm property, practically all risks are rated today by schedules, and the effort is now being made to bring sprinklered risks under schedule.

Broadly considered schedule rating, as applied to mercantile risks, consists of a basis rate for a standard building in a first class city. This base rate is increased as a city departs from standard.

Mr. Hardy says:

"A standard city is one that presents the most favorable conditions for the prevention, discovery, extinction and confinement of fire to such buildings; and the difference between the starting point, or base rate, of one city as compared with another, should be explainable by charges for variation from standard.

"The schedule property falls into these divisions:

"A. The Base Rate (or 'key rate').

"B. The building deficiency charges.

"C. The occupancy charges.

"D. The reductions for fire extinguishing appliances.

"E. The exposure.

"F. The coinsurance.

"G. Faults of management.

"The schedule assumes and defines a standard building."

It then furnishes a list of deficiency charges and credits.

A long list of occupancy charges is provided based upon the combustibility or damageability of contents. The three grand divisions of hazard are **structure, occupancy and exposure.**

As Mr. Dean is a profound and original thinker on the subject of rate making, and as I have a very high regard for his abilities, I

make no apologies for quoting from him liberally. In regard to the basis rate, he says:

"In the beginning of the industry, with the first step in the differentiation of rate to meet differences in hazard through charges and credits, the original or basis rate inevitably became the rate of a standard or unanalyzed building.

"The basis rate, by its very nature, must appear in every rate compilation, because it represents something that appears in every risk, as well as the standard without which all measurement is impossible. The inevitable conclusion from this line of reasoning is that, instead of stating the charge or credit for each analyzed part of risk as a fixed sum, unrelated and independent, it should appear in the tariff as a ratio or percentage of a common standard which, through the trade usage, has come to be known as the basis rate."

Mr. Dean points out that all standards are arbitrary, and Mr. Hardy says:

"It is always necessary for a rate to commence somewhere and with something. . . . It must of necessity have a starting point, and that starting point is the basis."

We have seen that from the very beginning of the business of fire insurance discriminations were made in rates between brick and frame buildings. Then there was a further classification by reason of occupancy. Then the modern schedules, comprehensive and elaborate, to the extent that they require the services of experts for their intelligent application. All real progress in schedule making has been made within the past twenty-five years.

Mr. Dean says further:

"The advent of rating schedules that analyzed the hazards of the individual risk into its parts was the beginning of a new classification of fire hazard, and through all the long history of schedule construction, with its turnings and twistings and groping after truth, the fact remains that the first schedule heralded the advent of a classification of hazard that was at least started in the right direction. As with all reasoning, a crude classification came first, then a higher, more logical and more discriminative classification, as found in our tariffs, supervened. Under the law of the survival of the most fit, this classification still survives with unimpaired vitality, and it is still growing in its refinement of analyses, organic consistency and sphere of utility, while the original classifications have become more or less useless."

At our Annual Convention last year a carefully prepared paper was read by Hon. Emory H. English, Insurance Commissioner of Iowa, on the subject, "The Attitude of Investigating Committees Regarding Rate Making Bureaus." In this comprehensive review of the subject he gave us a summary of the conclusions reached by legislative investigating committees of the various States, and it is referred to here because of its bearing on the subject assigned me. Commissioner English, in epitomizing the results of his researches, said, in part:

"In considering the reports of the various legislative committees and commissions which conducted these separate investigations in the various States, together with the report of the Committee from this Convention, a marked unanimity in the conclusions reached

respecting the value and utility of rate making bureaus must be recognized.

"It has been said that schedule rating owes its birth to the endeavor to arrive at the first rate in some way that can be explained and the attempt to establish a standard measure of fire hazard which can be seen, handled, discussed and understood."

Schedule rating is a vast improvement on the system of rough groupings that marked the advent of the industry; and is a step far in advance of the broad classifications into common, hazardous and extra-hazardous which characterized the later developments of the business; and is incomparably better than the flat judgment rates made by committees or individuals. It distributes the fire cost as equitably as any applied system of taxation with which I am familiar.

We know the average loss ratio, and the average rate collected for the United States and for each State; but these averages include all classes of risks and do not indicate experience with the several classes. As no such statistics have been available, the accuracy of schedule rates have not been demonstrable to the layman.

On this subject the Joint Committee of the Senate and General Assembly of New York, filed February, 1911, had this to say:

"When allowance is made for the slight differences in the point of view between different inspectors, the rate for a given risk, when the schedule has once been established, is perfectly definite. It is this fact which gives schedule rating one of its chief values, the fact that it eliminates discrimination—not completely, for in case the schedule is wrong one class will suffer at the expense of another—but, at any rate, the discrimination is all centered in the schedule itself. It certainly eliminates discrimination on the basis of "influence," which is the most vicious form of discrimination. And, even though the schedule is not perfect, it does what is most important, it adjusts the rates approximately correctly inside of given classes.

"That is, a schedule may err in making wood-working establishments pay too high a rate as compared with metal-working establishments, but it is more important to have the rates for different wood-workers properly adjusted among each other than the rate as between wood-workers and iron-workers. The reason for this is that the wood-workers and iron-workers are in direct competition each among its own group, but there is no particular competition of wood-workers and iron-workers.

"Any reasonable schedule, even though it may have considerable defects, will tend to produce equity inside of fairly homogenous classes."

Personally, I wish to add that in my experience as a rate-maker, I never saw any indications of a tendency to discriminate between classes on grounds other than a difference in hazard, and I can see no reason why underwriters would wish, or could profit by, a deliberate and unjustifiable discrimination between classes. Competition would not suffer it to continue long.

To group risks according to occupancies and use the average rate thus obtained, would be to inaugurate again the crude system that marked the beginnings of the business, and would be unjust to those members of a group whose good risks would be penalized by being lumped with all risks in the class, good and bad. Every man wants to know that he is being treated fairly; that the individual merits of his risk are recognized in his rate, and that he is paying no more than his neighbor or his competitors for the same thing. If

he has taken pains and spent money to improve his risk, or to build better than his neighbor, he is entitled to and should, under any conceivable system of rating, receive recognition for these betterments. Schedule rating, as developed in this country, has recognized the merits and demerits of individual risks through credits and charges.

It has long been, and still is, argued with much force by some fire underwriters of distinction, that actual experience is not a safe guide in the making of rates, and that the collection of data by the Actuarial Bureau of the National Board can have no value aside from demonstrating that it is valueless.

It was manifest that the work of compiling this data should be done by some central bureau, to which all companies could report their writings and losses. This work naturally fell to the National Board of Fire Underwriters as the logical agency for this purpose, and on January 1st, 1916, the work was begun and is now going forward under favorable auspices, practically all companies of all kinds doing an interstate business reporting to the Actuarial Bureau, which has the work in charge.

A monograph entitled "The Experience Grading and Rating Schedule" was published in 1915 by Mr. E. G. Richards, until recently President of the National Board of Fire Underwriters. Coming as it does from so eminent an authority, it is entitled to and will receive the thoughtful consideration of those interested in the subject.

I regret that Mr. Richards' book was brought to my attention too late for a careful study of its contents. He, as a matter of course, recognizes the pseudo-classification of the past, and his plan contemplates a sub-division of classes which, he says, has been made possible by the recent invention of wonderful machinery devised for statistical purposes.

I cannot even hint here of the ideas he advances without, perhaps, doing him injustice, and I cannot venture upon a discussion of it for that reason as well as because of the limits to the length of this paper, even if I had mastered, as I have not, the suggestions which he makes.

I hope that he has found some practical way of utilizing the data now being compiled by the Actuarial Bureau for the first time; and I also hope the plan will admit of treating the individual risk as fairly as it is treated in present schedules. I also hope that it will overcome some of the serious objections urged against experience ratings advanced by some profound thinkers which have made a deep impression on my mind.

I seriously doubt whether the exact distribution of fire cost between the different classes, even if discrimination now exists, will justify the abandonment of the charges and credits in the modern schedule which have been of such immense public benefit, unless all States at the same time enact and rigidly enforce laws which will take their place. This is merely a suggestion, and must not be understood as indicating that Mr. Richards' ideas involve any such sacrifice. I cannot, of course, endorse a system that I have not had time to study and which has not been tested, but, on the other hand, my respect for the eminent author gives me hope that he has found a way to make intelligent use of the data now being gathered.

One thing is certain, no system of rate making can ever dispense with underwriting judgment as a prime factor in a company's success.

The work now under way by the Actuarial Bureau may bring some surprises to those who doubt its value, and it should continue

to receive the support of this Convention. It will at least demonstrate whether it has value or not.

While not contemplated by, it is nevertheless germane to, my subject, and, therefore, I cannot refrain from calling special attention to the great public service that has been performed by schedule rating in bringing about better building construction, better public and private fire protection and better housekeeping. The purpose of the deficiency charges in the schedules is to encourage the removal of defects by making it to the financial interest of the assured to correct them. I think all investigating committees have commended this feature, but none so strongly as the Joint Legislative Committee of the Senate and Assembly of the State of New York, quoted from above.

"The economic, even the sociological, effect of the application of schedule rating can scarcely be over-stated. It is doubtless true that schedule rating is at present by far the most powerful agent in the inauguration of good building construction and in checking the appalling fire waste of the country. . . . It is not to our credit that schedule rating is the most powerful agency for fire prevention, for it acts entirely through the selfish desire of the insured to lower his insurance rate, not primarily because he is interested in reducing the fire loss. . . . To be driven to an interest in fire prevention only indirectly because of its effect upon his premiums is not praiseworthy when there are direct ways toward the same end, the enactment, for instance, of proper building laws, the creating of offices for inspecting risks and for a general surveillance over conditions looking toward fire prevention, not to speak of greater individual carefulness.

"While, however, we are waiting for the time when we shall be far sighted and intelligent enough to attack this problem directly, we must recognize that we have, in the operation of schedule rating, an immensely important and effective instrument for this purpose; that largely unconsciously, or, at least, without direct intention, the insurance companies, through their development of schedule rating, are facilitating this work. In consideration, therefore, of insurance legislation there must be kept in mind, among other things, the effect of any proposed law upon the operation of this progress."

The alleged hostility to fire insurance companies (not nearly so general or acute as some would have us believe) is due in a large measure to the fact that these penalty charges are in their schedules. It has not been generally understood, but has convinced every legislative investigating committee (greatly to its surprise) that these charges really take the place of missing cogs in our governmental machinery. The companies have thus been performing functions purely governmental, and this has, naturally enough, led to resentment in some cases.

In Europe schedules and rate making are not even discussed outside the insurance fraternity. This for the reason that rates are so low that they are negligible; and the reason their rates are low is because their losses are small. The reason their losses are so small is because they have legislated against fires instead of legislating against fire insurance companies. We have been so busy regulating the insurance business we have not had time to regulate the fire waste. They have directed their attention to the suppression of fires; we have spent our time discussing mere manifestations of a vital, economic problem, and instead of dealing with fundamentals, we experiment with legislation that operates not at all upon the cause, but only upon the manner of distributing an appall-

ing waste. Their laws fix the doctrine of personal responsibility, and we pass valued policy laws which encourage arson and reward the dishonest at the expense of the honest. They have building laws strictly enforced. Few of our States have such laws, and where they have been adopted in our cities they are frequently disregarded or suspended in the interest of individuals. Our fire waste is largely a matter of mental attitude.

The realization of experience rates would probably raise the rates on some classes and lower them on others. The experience of companies with the several classes is constantly shifting, and hence the experience rate would be no more constant than is the schedule rate. But the vexed problem of high rates as a whole would remain. We must not expect any change in the plan of distributing the fire cost to lower our total premiums until we have legislated our losses down. There has been an awakening on this subject, as shown by the enactment of fire prevention and modified personal responsibility laws by some of the States recently. I am glad to say that my State enacted an excellent fire prevention law in 1915.

The making of schedules is an exceedingly difficult undertaking in this particular country. The schedule maker is confronted not only by the problems inherent in the analyses of fire hazard, but his difficulties are greatly increased by the fact that we have forty-eight different sovereignties, each equipped with its peculiar laws, seldom found in harmony with those of other States. Some States have much restrictive legislation; others little. The statutes of some States bristle with valued-policy, anti-co-insurance, anti-compact and penalty laws. Some States insist upon unbridled competition; others forbid discrimination,—and a few States are making the rates at which companies must write, without regard to experience.

The conflicting and widely varying laws of the several States present a condition of legislative chaos, and it is for the best interest of those we serve as well as in the interest of dependable insurance that we work assiduously for more uniform laws as this Convention has done and is doing. Uniform legislation is quite as desirable as uniform rates.

In considering an equitable distribution of the fire cost we must bear in mind that the principle of average or co-insurance, as recognized all over Europe, and printed in all their policies, is an indispensable factor.

In conclusion, I must say that from my experience and observation I believe the modern rating schedule to represent a sincere effort on the part of underwriters to make equitable insurance rates and to reduce the fire waste. Schedules being of human origin, are not perfect. The rates they produce are not precisely accurate. Like all human efforts toward exactness, they are approximations. They are complicated from the necessity of dealing with complex matters, and not by reason of a design to make things abstruse or occult for ulterior purposes.

In my humble opinion we can never have the same exactitude in any other insurance rates that we have in life insurance.

If any better way is found than the modern schedule for the making of insurance rates, I shall, of course, welcome it with my brother Commissioners. My face is toward the future, and I am no reactionary. I confess that I am more interested in the reduction of our enormous fire waste than in its exact apportionment.

Before abandoning a system that has done so much public good, and that has met with the approval of all investigating committees as well as of the general public, I want to be reasonably sure that

what we receive in exchange will be better than what we surrender, or, at least, as good.

In the preparation of this paper I am indebted to the following authorities, and I recommend a study of them to those interested in the question:

Edward Rochie Hardy, Ph. D., "Fire Insurance Rating."

American School of Correspondence, Chicago, Ill.

A. F. Dean, Chicago, Ill., "Fire Hazard, Is it Measurable?" "Fire Insurance Classifications," "Classified Experience."

Gayle T. Forbush. "Notes on Rates and Rate Making." Insurance Library Association of Boston.

CAN INSURANCE RATES BE PROPERLY MADE BY A REPRESENTATIVE FORM OF GOVERNMENT?

By M. J. Cleary, Commissioner of Insurance of Wisconsin.

This is the question which I am asked to answer in this discussion. There is, in my judgment, but one answer. There is no reason why a State cannot make insurance rates. There are, however, many reasons why it is impractical and unwise, under existing circumstances, for a State to assume the burden of doing so.

I might indulge in an academic discussion of the fact that the State has the authority to make rates if it deems it wise to exercise that authority. I might also spend time calling to your mind the fact that the State is possessed of resources with which to draw to its assistance the service of men capable of performing this work. But why spend time upon matters that are fully understood by every one who has given any thought to the subject?

I prefer to deal with the subject from the standpoint of one answering the question, "Should the State make rates for insurance?"

I am an individualist. I believe that the great progress of the American people in all industrial and commercial pursuits is largely due to the fact that the individual profits by his success. I believe that the people are governed best who are governed least. I regret the growing tendency and demand that the State assume a guardianship over its people. It means the socialistic state, as against the individualism that has made us a place in the world. The hope of financial gain, and the glory of success are the sparks that have ignited the genius of Americans and produced the things of which we as a people are proud. Take these rewards for successful effort away and you have killed the spirit that fights for success.

The making of rates by the State is but one step toward a socialistic state. It affects but one line of business, but serves as a precedent for others.

There are a hundred lines in which the State can justify an arbitrary determination of the price charged for commodities more readily than the insurance field. Insurance is not a necessity, and it is not compulsory, except in few instances. Food, clothing, shelter, and many other things are absolutely necessary to life, and those charged with responsibility for them are compelled by law to provide them. This being true, why should not the State determine the price at which they are to be sold?

Yes, but the advocates of State rate-making will say: these things are not the subject of monopoly and cannot be controlled as insur-

ance can and is controlled. To some extent that is true. Yet, we know that many of the necessities of life are controlled.

Insurance is of such importance to our people, and so necessary to our personal and commercial well being that we cannot well do without it. It requires large accumulations of capital to carry it on with safety to company and policyholders. It is a quasi-public enterprise. Its safety must depend upon the adequacy of the premium collected. It is better that the rate be too high and the protection good, than that the rate be low and the protection questionable.

The justification for State rate making must be economy of cost in making rates, an equitable distribution of the cost of insurance, and protection to the people against excessive charges. If we have reached the point in our efforts at which we can say that any or all of these cannot be attained, except through the exercise of this power by the State, then such action may be justified. I do not believe we have. The position of company officials that the State has no right to impress upon this business regulation to bring about these ends is no longer tenable. The past practice of companies engaging in competition and in individual action in the conduct of the business has left its monument in defunct companies, of which nothing but a distasteful memory survives and disappointed policyholders, stockholders, and creditors. For years the best minds have realized that that system was wasteful, expensive, and destructive. From this, and following the course of all modern business, co-operation came. It was imperative and inevitable. With co-operation in making rates, in standardizing classifications, contracts, and forms, came the cry of monopoly and oppression. This, also, was certain to come.

The subject is one of mystery to the average individual. He does not, and in the past could not, know how his rate was made. He only knew, or was convinced beyond a doubt, that he knew that he was paying too much for his insurance. He looked to the only source to which he could look, and demanded protection,—the State. His demand was that the State make the rate. That demand was echoed by those who understood but little of the problem involved, but desired to meet and curry favor with the man who votes.

The State can accomplish, in efficiency and economy, nothing by assuming the burden of rate-making that cannot be accomplished by privately operated rate-making bureaus. If the State makes the rate it cannot assure the application of such rates without discrimination, except by supervision. If it becomes important to provide against excessive charges, experience has demonstrated that this can be done without the State assuming the burden of rating in the first instance.

So I conclude that while the State is unquestionably in a position to make rates—not, however, without a handicap that would be burdensome, due to the fact that human nature has its weakness and is prone consciously or unconsciously to favor itself in its ambitions—the insurance department or other State body charged with responsibility in initiating rates, cannot, however, honest and well-meaning, fail to be influenced by the general public sentiment. It is safe to say that that sentiment will always be to the effect that the insurance charge is excessive. Further than this, the successful working out of this field of effort will require continuity of service and a policy. This cannot readily be had under a government such as we have in this country. The service required in a successful and intelligent making of rates will of necessity be an expensive

service; we must have highly trained engineering skill. In order to obtain this class of service, salaries commensurate with those paid by private enterprises must be paid. This will necessitate a revision of the ideas of most of the States upon the salary question. All of these obstacles can be and would be overcome if there were no other practical way in which to solve the proposition of giving to the people the necessary insurance protection at a minimum expense.

Private ownership and operation of many of the most important utilities now serving the public—utilities that enjoy an actual monopoly—has been made satisfactory to the people, who must use the service of these utilities, by State regulation. There is no reason why the same satisfactory results cannot be obtained through regulation by the State of the insurance companies.

In Wisconsin we regulate the service and the charges of all of the public utilities operating in that State. This regulation has proven entirely satisfactory to the people, as well as to the companies selling the service. In no instance have we taken away from the company the right to initiate the rate at which its service or commodity will be sold. We have, however, provided that the service or commodity shall be sold to the people without discrimination. We have also provided that the service shall be given to the people at a reasonable cost. The result is that a condition much more aggravating than that now existing between the policyholder and the insurance company has been solved entirely satisfactory to all interested parties.

I believe that wisdom will dictate that the States follow this course with regard to insurance, rather than to deprive the companies of the most important function connected with their operation—the establishing of a rate at which their service and protection will be sold to the people. It cannot be argued successfully that the State can economize on the cost of insurance by making the rates. I know of no instance where a governmental function is being performed in such a way that a similar function performed by private enterprise, with regard to efficiency or economy, will suffer in comparison.

WHOLE FAMILY INSURANCE BY FRATERNALS.

By Harvey Wells, Insurance Commissioner of Oregon.

Mr. President and Gentlemen of the Convention:

I was somewhat surprised when I received a letter from my good friend, Mr. McMaster, the Secretary of this Convention, containing the information that the Committee had assigned to me the subject of "Whole Family Insurance by Fraternals."

I promptly replied declining this honor on account of my being unable to attend the Convention, but the good Commissioner from South Carolina, "who never gives up," promptly replied that if a contributor could not attend the Convention, it was customary for the Secretary to read the paper, and requested that I would have same in his hands not later than the 20th of this month, so, with due appreciation of the honor and responsibility, I will attempt to discuss this subject from the experience of the Juvenile Department of our domestic societies.

Life insurance is one of the most important classes of business institutions created by human genius, and I believe fraternal societies that are honestly managed and are giving their members insurance upon adequate rates should be permitted to extend their mem-

bership to include any member of the family. But no society should be permitted to add to the "whole family protection" insurance until it has adopted adequate rates and shows a fair degree of solvency.

Insurance of all kinds progresses year by year, and it can only progress safely by experience. The business of insuring the lives of children is not new; it has long since passed the experimental stage and the experience of those engaged is available for any who may care to use it. It cannot be denied that those desiring to engage in the business at this time will have more data and experience upon which to base their plans and rates than those who pioneered this feature of insurance. Then why may not a fraternal society be safely permitted to take up this branch of insurance? It is apparent that it has resolved itself into the question as to who may be permitted to engage in this business. Shall the State say through its department that fraternal societies under its jurisdiction cannot be permitted to grant insurance upon the lives of the children? If the department of the State took this action, then we would be granting an exclusive franchise to one class of concerns engaged in the life insurance business to the exclusion of all other concerns engaged in such business. My position would be inconsistent if, as Commissioner of Oregon, I should permit certain concerns to write insurance upon the lives of children and say to other solvent concerns that, as this is a new adventure for you, and you have not had sufficient experience, you shall not be permitted to conduct the same kind of business. Upon what rule of equity could I base a decision of this kind?

The experience of those engaged in the business providing life insurance for children demonstrates that it is not a hazardous business. The life tables of the Bureau of Census, issued by the United States, show that the death rate between the ages of two and seventeen is more favorable than that of adults. The rate for one thousand averages 4.12 per cent., while the most favorable age (between eleven and twelve) show a death rate of only 2.19 per cent. per thousand. These statistics are based upon the population as a whole, slums included; whereas, children of the members of fraternal societies are largely children of home owners, farmers, merchants, laborers and clerks, and I consider that these would be select risks.

The argument has been advanced that the granting of this business by fraternal societies would stimulate crime, such as strangulation, poisoning, drowning of children, etc. If this argument is of any value, it belongs to all alike and no concern should be permitted to transact this class of business; but, as a matter of fact, the children of the members of fraternal societies do not have that kind of parents.

In the State of Oregon, as well as in the adjoining States, I personally know that the membership of the fraternal societies constitute the backbone of this country.

The members of these societies are the most desirable citizens in our great Pacific Northwest, and based mostly upon that class known as the great common people who, day after day toil, not for glory, but to maintain the home, and it is their will expressed at the polls that, like the balance wheel, regulates and maintains our government.

Life insurance is a necessity; it is no longer a luxury of the rich; it is the bread, clothing and shelter of the widows and orphans, and moneys received from the funds of life insurance are the most sacred that hands can touch, and every true citizen should not approach the subject of the protection of the home unless he does

so in a friendly receptive mood, banishing the thought that to beat the game you must die. That attitude of selfish antagonism either denotes ignorance or lack of interest in the protection of the home.

The **United Artisans**, a fraternal society of Oregon, has been actively engaged in issuing small policies to children between the ages of two and eighteen years for over a year. They have covered the lives of fifteen hundred children in that time, and have only had one loss, amounting to \$35.00. The rates were formulated by a well known actuary now in the employ of several departments, and who has frequently been employed by this State department.

In this society the Juvenile Department is entirely separate from the adult department. There is no mingling of funds, the juveniles have their own lodges, their own ritualistic ceremonies, band, orchestra, singing classes and sick committees, and they are taught to memorize the ritual and the proper parliamentary usage. The greatest feature of all is the teaching of patriotism, and when you see the children at their meetings rallying around the American flag, giving the impression that they would give their lives, if necessary, to protect "Old Glory," one would be convinced that the Juvenile Department was not only an advanced step in fraternalism, but also citizenship, and the proper one for fraternal societies. The educational value of their membership is equal to the value of the insurance protection, and in the State of Oregon these children are from the homes of the people who have a plot of ground with a house on it, and a garden in the back yard.

Now, as Commissioner, shall I say to the parents of these children that I do not consider it sound underwriting to permit fraternal societies to insure their children, notwithstanding the fact that I permit the same society to issue certificates to the parents for a larger sum? Shall I deny that same society the right to issue a small policy based upon adequate rates as shown by the experience of other concerns and by the standard mortality tables? I do not believe that I could sustain such a position, either in the courts or before the people, and if it is wrong for fraternal societies to insure children, then it is wrong for the others who are engaged in the same business.

To insist that fraternal societies cannot write policies in small amounts upon the lives of the children, even though the policy is written upon adequate rates and risks selected, is to deny the successful experience of other concerns whose statistics show a profitable business, although in the beginning their rates were made by guess and their risks taken from the poorest industrial classes. If others could succeed in a strange field, surely the fraternal societies, with the whole broad map before them, having a membership of over nine millions in the United States, and with reasonable and certain knowledge of what rates are adequate, should, in my opinion, be just as successful if conservatively managed. It is estimated by actuaries that from three to four million children go unprotected each year. This is because the fraternal societies are not engaged in this class of business and other concerns do not reach them.

I will say that any society permitted by law to do an adult business in the State of Oregon may conduct a Juvenile Department, provided the society has adopted adequate rates and the funds of the Juvenile Department are kept separate and proper officials are selected to manage this class of business. Any society complying with all of these requirements will not be denied the privilege of writing whole family insurance.

In conclusion, it is to be understood that this paper is written upon the experience of domestic societies in Oregon. I believe

that the experience of these societies can be used as a basis for others to obtain legislative action.

I would suggest that if the Commissioners and fraternal societies are interested in "Whole Family Insurance by Fraternals," that this Convention appoint a special committee to confer with a like committee from the fraternal societies and agree upon a form to be submitted to the Committee on Laws and Legislation at the December meeting of Commissioners, and if approved by this Committee, a copy of their proposed recommendation be furnished to those Commissioners who desire to submit same to their Legislatures convening in their respective States in the early part of 1917.

Respectfully submitted,

HARVEY WELLS,
Insurance Commissioner of Oregon.

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